

**LOUISIANA CHILDREN'S MEDICAL CENTER****Consolidated Financial Statements****December 31, 2011 and 2010**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **JUN 27 2012**

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## Independent Auditor's Report

To the Governing Board of Trustees  
Louisiana Children's Medical Center

We have audited the accompanying consolidated balance sheets of Louisiana Children's Medical Center (LCMC) (the System) as of December 31, 2011 and 2010 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of LCMC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LCMC as of December 31, 2011 and 2010, and the results of their operations, changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 21 to the consolidated financial statements, LCMC changed its method of accounting for payments received from the federal Medicaid Upper Payment Limits program in 2011.

Also, as described in Note 21 to the consolidated financial statements, certain errors resulting in the understatement of previously reported accounts payable and the overstatement of previously reported unrestricted net assets as of December 31, 2010, were discovered by management during the current year. Accordingly, an adjustment has been made to unrestricted net assets as of December 31, 2010, to correct the error.

A stylized, handwritten-style signature of the word "LaPorte" in a cursive script.

A Professional Accounting Corporation

March 26, 2012

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**LOUISIANA CHILDREN'S MEDICAL CENTER**  
**Consolidated Balance Sheets**  
**December 31, 2011 and 2010 (in Thousands)**

	2011	2010 (As Restated)
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 9,851	\$ 15,680
Assets Limited as to Use	2,334	2,108
Patient Accounts Receivable, Net of Allowance for Doubtful Accounts of \$13,483 and \$15,080, in 2011 and 2010, Respectively	53,282	46,570
Other Receivables	6,751	6,496
Inventories	10,627	10,124
Prepaid Expenses and Other Assets	4,995	5,858
<b>Total Current Assets</b>	<b>87,840</b>	<b>86,836</b>
<b>Assets Limited as to Use</b>		
Designated for Capital Projects and Specific Programs	696,166	705,856
Restricted by Bond Indenture, Debt Service Reserve	14,042	15,163
Donor-Restricted Long-Term Investments	12,100	12,438
Restricted Other	600	600
Less: Amount Required for Current Obligations	(2,334)	(2,108)
	720,574	731,949
<b>Property, Plant and Equipment, Net</b>	<b>235,642</b>	<b>231,863</b>
<b>Other Assets</b>	<b>3,071</b>	<b>3,398</b>
<b>Total Assets</b>	<b>\$ 1,047,127</b>	<b>\$ 1,054,046</b>

The accompanying notes are an integral part of these consolidated financial statements.

**LOUISIANA CHILDREN'S MEDICAL CENTER**  
**Consolidated Balance Sheets (Continued)**  
**December 31, 2011 and 2010 (in Thousands)**

	2011	2010 (As Restated)
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Trade Accounts Payable	\$ 26,862	\$ 25,482
Accrued Salaries and Wages	19,738	18,358
Current Maturities of Bonds Payable	1,815	950
Current Portion of Capital Lease Obligations	1,138	1,407
Current Portion of Estimated Employee Health and Workers' Compensation Claims	4,103	3,957
Current Portion of Estimated Professional Liabilities Claims	3,070	3,428
Estimated Third-Party Payor Settlements, Net	11,993	1,563
Other	9,020	11,823
<b>Total Current Liabilities</b>	<b>77,739</b>	<b>66,968</b>
 Bonds Payable, Net of Current Portion	 74,637	 86,115
Capital Lease Obligations, Net of Current Portion	-	1,139
Estimated Workers' Compensation Claims, Net of Current Portion	1,657	2,085
Estimated Professional Liability Claims, Net of Current Portion	6,422	7,190
Employee Benefits	17,929	12,340
<b>Total Liabilities</b>	<b>178,384</b>	<b>175,837</b>
 <b>Minority Interest</b>	 <b>623</b>	 <b>760</b>
 <b>Net Assets</b>		
Unrestricted	853,332	862,296
Temporarily Restricted	6,871	7,236
Permanently Restricted	7,917	7,917
<b>Total Net Assets</b>	<b>868,120</b>	<b>877,449</b>
 <b>Total Liabilities and Net Assets</b>	 <b>\$ 1,047,127</b>	 <b>\$ 1,054,046</b>

The accompanying notes are an integral part of these consolidated financial statements.

**LOUISIANA CHILDREN'S MEDICAL CENTER**  
**Consolidated Statements of Operations**  
**For the Years Ended December 31, 2011 and 2010 (in Thousands)**

	2011	2010 (As Restated)
<b>Unrestricted Revenues, Gains and Other Support</b>		
Net Patient Service Revenues	\$ 450,181	\$ 438,935
Other Operating Revenues	28,012	20,075
<b>Total Operating Revenues</b>	<b>478,193</b>	<b>459,010</b>
<b>Operating Expenses</b>		
Employee Compensation and Benefits	231,683	222,324
Purchased Services	84,520	77,845
Professional Fees	24,747	25,536
Supplies and Other Expenses	84,636	86,444
Provision for Doubtful Accounts	14,472	12,412
Depreciation and Amortization	27,142	26,575
Impairment Losses	44	214
Interest	3,920	4,825
<b>Total Operating Expenses</b>	<b>471,164</b>	<b>456,175</b>
<b>Income from Operations</b>	<b>7,029</b>	<b>2,835</b>
Investment Income	5,596	85,884
Other Nonoperating Income (Loss)	543	2,551
Community Support, Net	(16,532)	(14,824)
<b>(Decrease) Increase in Unrestricted Net Assets</b>	<b>(3,364)</b>	<b>76,446</b>
<b>Noncontrolling Interests in Income of Consolidating Subsidiaries</b>	<b>21</b>	<b>22</b>
<b>(Decrease) Increase in Unrestricted Net Assets Before Other Changes</b>	<b>(3,343)</b>	<b>76,468</b>
<b>Adjustment to Pension Liability</b>	<b>(5,621)</b>	<b>660</b>
<b>(Decrease) Increase in Unrestricted Net Assets</b>	<b>\$ (8,964)</b>	<b>\$ 77,128</b>

The accompanying notes are an integral part of these consolidated financial statements.

**LOUISIANA CHILDREN'S MEDICAL CENTER**  
**Consolidated Statements of Changes in Net Assets**  
**For the Years Ended December 31, 2011 and 2010 (in Thousands)**

	2011	2010 (As Restated)
<b>Unrestricted Net Assets</b>		
(Decrease) Increase in Unrestricted Net Assets	\$ (8,964)	\$ 77,128
<b>Temporarily Restricted Net Assets</b>		
Contributions	5,058	5,526
Investment Income	62	1,264
Net Assets Released from Restrictions	(5,485)	(6,884)
<b>Decrease in Temporarily Restricted Net Assets</b>	(365)	(94)
<b>Increase in Permanently Restricted Net Assets</b>	-	43
<b>(Decrease) Increase in Net Assets</b>	(9,329)	77,077
<b>Net Assets, Beginning of Year, as Previously Reported</b>	877,449	801,188
<b>Prior Period Adjustment - Correction of Error</b>	-	(816)
<b>Net Assets, Beginning of Year, as Restated</b>	877,449	800,372
<b>Net Assets, End of Year</b>	\$ 868,120	\$ 877,449

The accompanying notes are an integral part of these consolidated financial statements.



**LOUISIANA CHILDREN'S MEDICAL CENTER**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2011 and 2010 (in Thousands)**

	2011	2010 (As Restated)
<b>Cash Flows from Operating Activities</b>		
(Decrease) Increase in Net Assets	\$ (9,329)	\$ 77,077
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Adjustment to Pension Liability	5,621	(660)
Noncontrolling Interest in Income of Consolidated Subsidiaries	(21)	(22)
Depreciation and Amortization	28,880	28,347
Net Loss on Disposal/Sale of Assets	294	8
Impairment Losses	44	214
Gain on Release of Asset Retirement	-	(1,421)
Provision for Doubtful Accounts	14,472	12,412
Change in Operating Assets and Liabilities		
Increase in Patient Accounts Receivable	(21,095)	(11,777)
Increase in Other Receivables	(2,192)	(1,456)
Increase in Inventory	(505)	(821)
Decrease in Other Current Assets	834	1,039
Decrease (Increase) in Investments Limited as to Use	11,149	(68,183)
Decrease in Other Assets	234	342
Increase in Trade Accounts Payable	1,405	1,424
Increase in Accrued Salaries and Wages	1,380	1,117
Increase (Decrease) in Third-Party Payor Settlements	10,430	(2,482)
(Decrease) Increase in Other Liabilities	(2,137)	5,014
<b>Net Cash Provided by Operating Activities</b>	<b>39,464</b>	<b>40,172</b>
<b>Cash Flows from Investing Activities</b>		
Capital Expenditures	(33,409)	(33,232)
Proceeds from Sale of Assets	329	70
<b>Net Cash Used in Investing Activities</b>	<b>(33,080)</b>	<b>(33,162)</b>
<b>Cash Flows from Financing Activities</b>		
Payments on Capital Lease Obligations	(1,407)	(1,455)
Repayments of Bonds Payable	(10,690)	(4,115)
Distributions Paid to Noncontrolling Interests	(116)	(151)
<b>Net Cash Used in Financing Activities</b>	<b>(12,213)</b>	<b>(5,721)</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(5,829)</b>	<b>1,289</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>15,680</b>	<b>14,391</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 9,851</b>	<b>\$ 15,680</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash Paid for Interest	\$ 5,082	\$ 5,558
Property, Plant and Equipment Purchases in Accounts Payable	\$ 1,957	\$ 3,785

The accompanying notes are an integral part of these consolidated financial statements.

## **LOUISIANA CHILDREN'S MEDICAL CENTER**

### **Notes to Consolidated Financial Statements**

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#### **Note 1. Summary of Significant Accounting Policies**

##### **Organization**

Louisiana Children's Medical Center (LCMC) (the System) is a Louisiana non-stock, not-for-profit corporation that was incorporated in 2009. Through a Health Care System Agreement (System Agreement) between LCMC, Children's Hospital, a Louisiana not-for-profit corporation (Children's) and Touro Infirmary, a Louisiana not-for-profit corporation (Touro), these parties have determined that together they can provide a two-hospital not-for-profit community-based hospital system that will provide a continuum of care to the families of the Gulf South region.

Children's is Louisiana's only community-based, not-for-profit, full-service hospital operated exclusively for children. Children's is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (Code). LCMC is the sole member of Children's. Children's has two affiliates, the Children's Hospital Medical Practice Corporation (CHMPC) and the Children's Hospital Anesthesia Corporation.

Children's is located in New Orleans, Louisiana and includes a 247-bed medical center providing care for infants, children and adolescents from birth to 21 years of age. It provides inpatient services in all pediatric, medical, surgical, and psychiatric subspecialties with a staff of more than 400 physicians. Outpatient services are provided in more than 50 subspecialties. Children's provides a large array of community benefit programs, wellness programs, research activities, and special programs for the handicapped and medically underserved. CHMPC was incorporated on February 6, 1996, to manage pediatric physician practices in a high-quality, cost-effective manner. A division of CHMPC, Kids First, emphasizes providing pediatric care in medically underserved geographical areas. Children's Hospital Anesthesia Corporation was incorporated on June 30, 2000, to provide high-quality, hospital, comprehensive anesthesia services. Children's and its affiliates are hereinafter collectively referred to as the Children's Group.

Touro is a community-based, not-for-profit, faith based hospital located in New Orleans, Louisiana. Touro is exempt from taxation under the Code.

Touro is the sole member of Woldenberg Village, Inc. (Woldenberg), and Touro Infirmary Foundation, both of which are non-stock, not-for-profit and tax exempt corporations. In addition, Touro is the sole stockholder of Crescent City Physicians, Inc., a for-profit corporation; and holds a 17.5% direct interest and 48.5% indirect interest (through Woldenberg) in TIJV, LLC, a for-profit limited liability company. Metrolab, Inc., a wholly owned for-profit subsidiary that was consolidated in 2010, was dissolved in 2011 and, therefore, was not included within the consolidation of the 2011 financial statements. The effect of this transaction is immaterial to the financial statements as a whole and is included within other nonoperating losses within the consolidated statement of operations.

## **LOUISIANA CHILDREN'S MEDICAL CENTER**

### **Notes to Consolidated Financial Statements**

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#### **Note 1. Summary of Significant Accounting Policies (Continued)**

##### **Organization (Continued)**

Touro Infirmary Foundation performs the fundraising function for Touro. Woldenberg operates a 120-bed nursing home, a 60-unit assisted living facility, and a 60-unit independent living facility. Crescent City Physicians, Inc. operates physician medical practices. Touro also owns a majority of the Buckman Medical Office Building and Delachaise Street Garage (Buckman Complex), condominium units and a parking garage in the Touro Medical Office Building, and the building formerly known as St. Charles General Hospital and parking garage, with a majority ownership of suites in the adjacent medical office building.

Each of the foregoing collectively with Touro are hereinafter referred to as the Touro Group.

Within this system, LCMC functions as the System Parent and sole member of Children's and the sole member of Touro, and any entity within the Touro Group of which Touro is the sole member, with reserve powers to be exercised to promote the best interests of the system and its affiliates. LCMC, the Touro Group and the Children's Group are hereinafter collectively referred to as the System.

The System became operational on July 14, 2009, and as a result, LCMC became the sole corporate member of both the Touro Group and Children's, as mentioned above. The Touro Group will remain a Jewish faith-based organization, retain its name and community reputation, and continue as a major medical center and "hub" for tertiary and quaternary care. Similarly, the Children's Group will continue to maintain excellence in providing cutting-edge pediatric care and be the leading pediatric academic medical center in the Gulf South region.

The consolidated financial statements of LCMC include the activities of LCMC, the Children's Group and the Touro Group. All significant intercompany transactions have been eliminated in consolidation.

All corporate powers of the Touro Group and the Children's Group are vested in the Board of Trustees of LCMC.

##### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

# LOUISIANA CHILDREN'S MEDICAL CENTER

## Notes to Consolidated Financial Statements

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with a remaining maturity of three months or less when purchased, excluding assets whose use is limited.

#### Contributions and Donor-Restricted Gifts

The System records contributions receivable in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic, *Accounting for Contributions Received and Contributions Made*, which requires the organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the condition is met or the gift is received. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When an externally-imposed restriction expires or unrestricted contributions are realized, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Temporarily restricted gifts greater than \$100,000 used to purchase a depreciable asset are reclassified as unrestricted net assets over the same period of time that the related asset is being depreciated.

Contributions for which the restrictions are met in the same period in which the unconditional promise to give is received are recorded as unrestricted revenue in the accompanying consolidated financial statements.

#### Assets Whose Use is Limited or Restricted

Assets whose use is limited primarily include assets held by trustees under indenture agreements, investments restricted by donors, and designated assets set aside by the Board of Trustees (the Board) for future capital improvements and commitments, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the System have been reclassified in the consolidated balance sheets at December 31, 2011 and 2010.

Assets whose use is limited are invested in mutual funds, debt securities and marketable equity securities, interest rate futures, options contracts, and money market accounts. These securities are classified as trading and are stated at fair value in the consolidated balance sheet, based on quoted market prices. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in unrestricted revenues, gains, and other support in unrestricted net assets unless the income or loss is restricted by donor or law. See Note 3 for further details.

Restricted other assets consist of certificates of deposit held by the Workers' Compensation Fund as collateral against the self-insured portion of claims.

# LOUISIANA CHILDREN'S MEDICAL CENTER

## Notes to Consolidated Financial Statements

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### Inventories

Inventories are stated at the lower of first-in, first-out cost or market at the balance sheet date. Children's states its inventories at market value at the date of the balance sheet.

#### Property, Plant and Equipment

Property, plant, and equipment are stated at cost, except for assets donated to the System. Donated assets are recorded at their estimated fair value at the date of donation. Depreciation and amortization, which includes amortization of assets under capital lease, are computed on the straight-line basis over the estimated useful lives, or shorter of useful life or lease term for capital leases, as follows:

Land Improvements	10 - 20 Years
Buildings	15 - 40 Years
Fixed Equipment	10 - 20 Years
Major Moveable Equipment	3 - 10 Years

#### Impairment of Long-Lived Assets

The System reviews its long-lived assets, including property and equipment and other intangibles, for impairment and determines whether an event or change in facts and circumstances indicates that their carrying amount may not be recoverable.

The System determines recoverability of the assets by comparing the carrying amount of the asset to net future undiscounted cash flows that the asset is expected to generate or estimated fair values in the case of nonrevenue generating assets. The impairment loss recognized is the amount by which the carrying amount exceeds the fair market value of the asset. See Note 16 for discussion of impairment losses on Woldenberg Village.

#### Estimated Workers' Compensation, Professional Liability, and Employee Health Claims

The System records the provisions for estimated medical, professional and general liability and workers' compensation claims based upon actual claims reported, combined with an estimate of claims incurred but not reported based upon past experience. Claims expense is reduced by amounts recoverable through stop-loss insurance purchased by the System. Estimates recorded for these self-insured liabilities incorporate the System's past experience, as well as other considerations including the nature of claims, industry data, relevant trends and/or the use of actuarial information.

#### Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use is limited by donors to a specific time period or purpose. Temporarily restricted net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

## **LOUISIANA CHILDREN'S MEDICAL CENTER**

### **Notes to Consolidated Financial Statements**

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#### **Note 1. Summary of Significant Accounting Policies (Continued)**

##### **Net Patient Service Revenues and Related Receivables**

Net patient service revenues and receivables are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. The System provides care to patients even if they lack adequate insurance coverage or are covered by contractual payment arrangements that do not pay full charges. The payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations are based on per diem rates or discounts from established charges.

##### **Deferred Financing Costs**

Deferred financing costs, which are included in other assets, are amortized over the period the obligation is outstanding, using a method that approximates the interest method. Deferred financing costs total approximately \$2,500,000 and \$2,300,000 at December 31, 2011 and 2010, respectively, and are presented net of accumulated amortization of approximately \$1,173,000 and \$1,057,000, at December 31, 2011 and 2010, respectively.

##### **Advertising Expenses**

The System expenses advertising costs as incurred. Advertising expense was approximately \$1,398,000 and \$1,110,000 for the years ended December 31, 2011 and 2010, respectively.

##### **Grants and Contributions**

From time to time, the System receives grants and contributions from individuals or private and public hospitals. Revenues from grants and contributions (including contributions of capital assets) are recognized when all of the eligibility requirements, including time requirements, are met, and when there is reasonable assurance that the grants or contributions will be received. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts are recorded as either operating revenue or nonoperating revenue dependent upon how the transaction is classified on the consolidated statement of cash flows. Cash flows that do not meet the reporting criteria for investing, capital financing or non capital financing would be reported as operating activities, with their associated revenue reported as operating revenue within the consolidated statement of operations.

##### **Community Benefit**

In the furtherance of its charitable purpose, Touro provides a wide variety of benefits to the community which it serves. Such benefits include health screenings, in-home caregiver services, and seminars on a variety of health topics that are relevant to the health needs of the community, such as healthy eating, diabetes management, healthy aging and cancer support and survivorship programs.

## LOUISIANA CHILDREN'S MEDICAL CENTER

### Notes to Consolidated Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### Community Benefit (Continued)

Touro offers counseling for patients and families, a variety of cancer support groups and supportive cancer care services, pastoral care, the donation of space for use by community groups, health enhancement and wellness programs, classes on specific medical conditions, and telephone information services. Touro staff support area nonprofits and community groups to offer health information and health screenings at community events. The Hospital partners with other healthcare nonprofits to provide healthcare information and education resources to the community. Touro also provides a broad range of clinical services to economically disadvantaged patients, both inpatient and outpatient, through outpatient clinics. In addition, Touro's Governing Board and management work closely with local civic leaders to address the health care needs of the community.

Touro also provides medical care without charge or at reduced costs to residents of its community through the provision of charity care.

Children's also renders a significant amount of care to patients from whom no collections are expected through its Children's Healthcare Assistance Plan ("CHAP"). The CHAP associated costs are not included in the System's operating income, but rather as community support on the consolidated statements of operations, see Note 18.

During the years ended December 31, 2011 and 2010, estimated costs associated with charity care services provided by Touro were approximately \$5,179,000 and \$3,892,000, respectively. Estimated costs of charity care services provided are determined based on Touro's average cost to charge ratio and total charges for provided services determined to qualify as charity care.

During the years ended December 31, 2011 and 2010, estimated costs associated with charity care services provided by Children's were approximately \$5,266,000 and \$5,796,000, respectively. Charity care costs are determined by assigning direct costs to charity care programs and by complementing the direct costs with estimates determined based off of Medicaid and Medicare cost report methodologies.

##### Derivatives and Financial Instruments

The System uses interest rate swap and basis swap agreements to manage interest costs and the risk associated with changing interest rates. While the System's primary objective for the use of these instruments is to manage its cash flow requirements, unrealized gains and losses in the fair value of such instruments are reflected in investment income or loss in the consolidated statement of operations in accordance with the *Accounting for Derivative Instruments and Hedging Activities* Topic of the FASB ASC.

## **LOUISIANA CHILDREN'S MEDICAL CENTER**

### **Notes to Consolidated Financial Statements**

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#### **Note 1. Summary of Significant Accounting Policies (Continued)**

##### **Reclassifications**

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

#### **Note 2. Net Patient Service Revenues**

The System has arrangements with third-party payors that provide for payments to the System at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

##### **Medicare and Medicaid**

##### **Children's:**

Children's participates primarily in the Medicaid program as a provider of medical services to program beneficiaries. Approximately 68% of Children's gross patient service revenues were derived from program beneficiaries for the years ended December 31, 2011 and 2010. Inpatient services rendered to Medicaid patients are paid based on a prospective per diem system. A change in the reimbursement methodology for inpatient services became effective September 1, 2009, and according to this methodology, inpatient services are settled based on cost and subject to certain limitations.

Outpatient services rendered to Medicaid patients are reimbursed under a cost reimbursement methodology subject to certain limitations. Children's is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports by Children's and audits thereof performed by the Medicaid fiscal intermediary.

Since July 1, 1988, Children's has qualified as a disproportionate share provider in accordance with the State of Louisiana's Medicaid regulations and, as such, is entitled to additional payments.

The Medicaid disproportionate share regulations are established by the Louisiana Department of Health and Hospitals and are subject to review and approval by the Centers for Medicare and Medicaid Services. Children's has included approximately \$995,000 and \$891,000 for Medicaid disproportionate share revenues in net patient service revenues, for the years ended December 31, 2011 and 2010, respectively.

The Medicaid cost reports for the years 2002 and 2004 through 2011 have not been final audited by the Medicaid fiscal intermediary.



## **LOUISIANA CHILDREN'S MEDICAL CENTER**

### **Notes to Consolidated Financial Statements**

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#### **Note 2. Net Patient Service Revenues (Continued)**

##### **Medicare and Medicaid (Continued)**

##### **Children's (Continued):**

Management regularly evaluates the adequacy of the recorded settlements and does not anticipate significant adverse adjustments to the recorded settlements for these cost report years. Any changes in the estimated settlements are reported as adjustments to net patient service revenues in the year the final settlements are determined. No such significant changes in estimates were recorded in 2011 or 2010.

##### **Touro:**

Touro is reimbursed under the Medicare Prospective Payment System (PPS) for acute care inpatient services provided to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. In addition, Touro is paid prospectively for Medicare inpatient capital costs based on the federal specific rate.

Touro qualifies as a disproportionate share provider and a teaching hospital under the Medicare regulations. As such, Touro receives an additional payment for Medicare inpatients served. Except for Medicare disproportionate share and medical education reimbursement and Medicare bad debts, there is no retroactive settlement for inpatient costs under the Medicare inpatient prospective payment methodology.

Touro is paid a prospective per diem rate for Medicaid inpatients. The per diem rate is based on a peer grouping methodology, which assigns a per diem rate to each hospital in the peer group. Medicaid outpatient services such as laboratory, outpatient surgery, and rehabilitation are reimbursed based on fee schedules, while other outpatient services are reimbursed based on cost.

Medicare inpatient rehabilitation services are paid through the Inpatient Rehabilitation Facility Prospective Payment System. Home health services rendered to Medicare program beneficiaries are reimbursed under a per-episode prospective payment system. Outpatient services rendered to Medicare program beneficiaries are reimbursed by the Outpatient Prospective Payment System (OPPS), which establishes a number of Ambulatory Payment Classifications (APC) for outpatient procedures in which Touro is paid a predetermined amount for these procedures. Medicare and Medicaid outpatient clinical lab, physical rehab services, and Medicaid ambulatory surgery services are reimbursed based upon the respective fee schedules.

## **LOUISIANA CHILDREN'S MEDICAL CENTER**

### **Notes to Consolidated Financial Statements**

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#### **Note 2. Net Patient Service Revenues (Continued)**

##### **Medicare and Medicaid (Continued)**

##### **Touro (Continued):**

Retroactive cost settlements based upon annual cost reports are estimated for those programs subject to retroactive settlement and recorded in the consolidated financial statements. Final determination of retroactive cost settlements to be received under the Medicare and Medicaid regulations is subject to review by program representatives. The difference between a final settlement and an estimated settlement in any year is reported as an adjustment to net patient service revenue in the year the final settlement is made. Touro's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2009. Touro's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through December 31, 2006.

Net revenues from government health care programs included in net patient service revenues approximated \$96,000,000 and \$92,000,000 for the years ended December 31, 2011 and 2010, respectively.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased in 2011 and 2010 by approximately \$4,565,000 and \$3,736,000, respectively, due to changes in estimates resulting from the removal of allowances previously estimated that are no longer necessary as a result of final settlements; years that are no longer subject to audits, reviews, or investigations; revision of allowance estimates recorded in prior years relating to expected retroactive adjustments; and revisions based on updated information from the fiscal intermediary.

During 2011 and 2010, Touro received approximately \$399,000 and \$451,000, respectively, from the State of Louisiana through the Stabilization Grant Payment Program and from a Graduate Medical Education Supplement Payment.

##### **The System:**

In 2009, House Bill No. 879 (HB 879) was approved and became effective upon the signature of the Governor of Louisiana. HB 879 directed the Department of Health and Hospitals, Bureau of Health Services Financing, to issue supplemental payments to hospitals that demonstrated substantial financial and operational challenges in the aftermath of hurricanes Katrina, Rita, Gustav and Ike. One of the provisions of HB 879 made additional Medicaid funding available to hospitals, identified in the July 17, 2008 United States Government Accountability Office (GAO) report, that have demonstrated substantial financial and operational challenges in the aftermath of Hurricane Katrina. Touro and Children's are two of five hospitals identified in the GAO report.

# LOUISIANA CHILDREN'S MEDICAL CENTER

## Notes to Consolidated Financial Statements

### Note 2. Net Patient Service Revenues (Continued)

#### Medicare and Medicaid (Continued)

##### The System (Continued):

As a result of the above, the System is eligible to receive supplemental payments for Medicaid services rendered. During the years ended December 31, 2011 and 2010, the System recognized as income and received these supplemental payments of approximately \$-0- and \$16,646,000, respectively.

##### Managed Care

The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Inpatient and outpatient services rendered to managed care subscribers are reimbursed at prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

### Note 3. Assets Limited as to Use and Investments

Assets limited as to use are investments that are accounted for in pooled asset and separately invested portfolios. Pooled assets represent funds that are invested in a commingled portfolio of assets, as opposed to the separately invested assets which have segregated investments.

At December 31, 2011 and 2010, assets limited as to use consist of the following (in thousands):

	2011	2010
<b>Pooled Asset Portfolio</b>		
Cash	\$ 5,112	\$ -
U.S. Government Securities	152	177
Marketable Equity Securities	376,436	428,532
Corporate Bonds	-	-
Other Fixed Income Securities	237,900	230,071
Mortgage-Backed Securities	4,724	11,601
Alternative Investments	-	2,330
Money Market Funds	34,404	6,095
Other	46,463	36,158
<b>Total Pooled Asset Portfolio</b>	<b>705,191</b>	<b>714,964</b>
<b>Separately Invested Portfolio</b>		
Marketable Equity Securities	1,815	2,048
U.S. Treasury Notes, Bonds, and Bills	1,734	1,508
State of Israel Bonds	500	500
Mortgage-Backed Securities	731	696
Money Market Funds, Certificates of Deposit, and Commercial Paper	12,937	14,341
<b>Total Separately Invested Portfolio</b>	<b>17,717</b>	<b>19,093</b>
<b>Total</b>	<b>\$ 722,908</b>	<b>\$ 734,057</b>

## LOUISIANA CHILDREN'S MEDICAL CENTER

### Notes to Consolidated Financial Statements

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#### Note 3. Assets Limited as to Use and Investments (Continued)

At December 31, 2011 and 2010, the System maintained \$600,000 of certificates of deposit held by the Workers' Compensation Fund as collateral against its self-insured portion of workers' compensation claims.

Fair value estimates are made at a specific point in time, based on market conditions and information about the investments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The investments in marketable alternative investments are valued by management at their equity in the net assets of the investment, which approximates fair value, utilizing the net asset valuation provided by the underlying investment companies, unless management determines some other valuation is more appropriate. Such fair value estimates do not reflect early redemption penalties or redemption restrictions as the System does not intend to sell such investments before the expiration of the early redemption periods.

The System has no future commitments to current or additional marketable alternative (hedge fund) managers. Some marketable alternative managers have withdrawal restrictions established upon entering their funds which limit an investor's ability to withdraw amounts as a protection for their investments. There also may be fees associated with early withdrawal that generally lapse over defined time periods. These restrictions generally allow for quarterly withdrawals; however, in no case does the withdrawal limitation extend beyond one year.

Investment income at December 31, 2011 and 2010, comprises the following (in thousands):

	2011	2010
Interest and Dividend Income	\$ 17,560	\$ 19,268
Net Gains (Losses)		
Realized Gains on Securities	18,293	17,589
Unrealized (Losses) Gains on Securities	(30,195)	50,291
	<u>\$ 5,658</u>	<u>\$ 87,148</u>

Investment income is reported net of investment fees. Investment fees were approximately \$1,127,000 and \$1,020,000, for the years ended December 31, 2011 and 2010, respectively.

## LOUISIANA CHILDREN'S MEDICAL CENTER

### Notes to Consolidated Financial Statements

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#### Note 4. Derivative Instruments

At December 31, 2011, derivative instruments consist of the following interest rate and basis swap agreements entered into by Touro:

Trade Date	Maturity	Notional Amount	Hedged Rate	Derivative Rate
August 15, 2005 (and amended September 29, 2011)	January 1, 2015	\$ 30,845,000	6.125%	Variable rate based on SIFMA Index
September 29, 2011	January 1, 2015	\$ 20,200,000	5.625%	Variable rate based on SIFMA Index
September 30, 2011	January 1, 2015	\$ 20,200,000	82% of LIBOR	0.692%
September 30, 2011	January 1, 2015	\$ 29,645,000	82% of LIBOR	0.625%

In relation to the swap agreements, the System's investment income included a net unrealized gain of approximately \$3,514,000 and \$143,000 in 2011 and 2010, respectively. Interest expense associated with the debt instruments was reduced by the gains and interest earnings from the swaps' effectiveness by approximately \$1,264,000 and \$702,000 in 2011 and 2010, respectively. At December 31, 2011 and 2010, these agreements had a carrying value (which approximates fair value) of approximately \$3,077,000 and \$6,591,000, respectively, and are recorded in other current liabilities.

The System purchases and sells interest rate options to enhance the overall return on its investment portfolio. Interest rate options grant the purchaser, for a premium payment, the right to either purchase or sell to the writer a specified financial instrument under agreed-upon terms. The premium compensates the seller for bearing the risk of unfavorable interest rate changes. The System's options on Eurodollar futures, U.S. Treasury bond futures and U.S. Treasury notes settle in cash and generally expire within one year of inception.

Futures contracts are sold or purchased to provide incremental value and to hedge or reduce market price risks. Interest rate futures contracts are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may either be settled in cash or through delivery. Futures contracts have little credit risk due to daily cash settlement of the net change of open contracts.

Futures on U.S. Treasury notes, U.S. Treasury bonds, and Eurodollar deposits are used due to their liquidity and credit risk advantages. Investments held by the System in the amount of \$1,000,000 are pledged as collateral to secure the initial margins on futures contracts purchased.

## LOUISIANA CHILDREN'S MEDICAL CENTER

### Notes to Consolidated Financial Statements

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#### Note 4. Derivative Instruments (Continued)

With respect to the derivative instruments held at December 31, 2011 and 2010, the System's exposure to credit-related losses in the event of nonperformance by counterparties is minimized because investment managers for the System deal almost exclusively in exchange-traded futures and options. These securities are extremely liquid, are subject to rigorous exchange and government regulation, involve limited counterparty risk, have no hidden embedded risks, and have daily available public prices.

All derivative instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous. Exposure to market risk is managed in accordance with risk limits set by the finance committee of the LCMC Board of Trustees and by monitoring performance by investment managers in accordance with specified investment guidelines.

#### Note 5. Property, Plant and Equipment

At December 31<sup>st</sup>, property, plant and equipment consisted of the following (in thousands):

	2011	2010
Land and Land Improvements	\$ 37,478	\$ 37,391
Leasehold Improvements	98	85
Buildings	294,483	281,186
Fixed Equipment	140,048	137,425
Major Moveable Equipment	214,991	210,768
	<u>687,098</u>	<u>666,855</u>
Less: Accumulated Depreciation	(460,782)	(442,073)
Construction in Progress	9,326	7,081
	<u>9,326</u>	<u>7,081</u>
Property, Plant and Equipment, Net	<u>\$ 235,642</u>	<u>\$ 231,863</u>

The net book value of assets under capital lease arrangements was approximately \$3,688,000 and \$5,059,000 at December 31, 2011 and 2010, respectively. Depreciation expense related to these assets was approximately \$736,000 and \$1,181,000 for the years ended December 31, 2011 and 2010, respectively.

## LOUISIANA CHILDREN'S MEDICAL CENTER

### Notes to Consolidated Financial Statements

#### Note 6. Long-Term Obligations

At December 31<sup>st</sup>, bonds payable consist of the following tax-exempt revenue and refunding bonds issued by the Louisiana Public Facilities Authority on behalf of Touro (in thousands):

	2011	2010
Series 1993, Issued September 1993, due in Sinking Fund Installments through 2023, Annual Interest Rates Ranging from 5.3% to 6.125%.	\$ 30,845	\$ 30,845
Series 1999, Issued May 1999, due Serially 2001 - 2010, and in Sinking Fund Installments 2011 - 2029, Annual Interest Rates Ranging from 4.15% to 5.625%.	46,300	56,990
Less: Current Maturities	(1,815)	(950)
Less: Unamortized Original Issue Discount	(693)	(770)
Non-Current Portion of Bonds Payable	\$ 74,637	\$ 86,115

The Series 1993 bonds were issued in order to advance refund and redeem previously issued bonds, and to finance capital expenditures of Touro.

The Series 1999 bonds were issued in order to provide funds to finance the cost of the construction, furnishing, and equipping of a 120-bed nursing home and a 60-bed assisted living facility at Woldenberg; the addition of a private-room floor at Touro; and for the funding of routine capital improvements and equipment.

In July 2005, Touro distributed, to bondholders, notices of intent to engage in a Tender Offer and Redemption of \$35,245,000 of Series 1993 bonds, which was the long-term portion of the \$44,785,000 Series 1993 bonds outstanding. As interest rates declined significantly since the issuance of the bonds, this transaction was structured to reduce the borrowing cost of the existing fixed rate of approximately 6.1%. On August 15, 2005, there was a call for full redemption of the bonds (at 100%) remaining outstanding that were not tendered to Touro by August 1 (at 101%). This call for redemption resulted in \$1,190,000 of the bonds being redeemed with the balance of \$34,055,000 being tendered. The tendered bonds were concurrently placed with Merrill Lynch in exchange for an interest rate swap agreement, maturing January 1, 2015 (see Note 4 for further details on the swap).

On September 28, 2011, Touro engaged in a tender offer of \$56,040,000 of Series 1999 bonds which resulted in \$3,385,000 of the bonds being tendered (at 100%). As discussed in Note 4, \$20,200,000 of the remaining Series 1999 bonds were placed with Merrill Lynch in exchange for various interest rate and basis swap agreements, maturing January 1, 2015. On November 5, 2011, Touro called and repurchased \$6,355,000 of these outstanding Series 1999 bonds.

## LOUISIANA CHILDREN'S MEDICAL CENTER

### Notes to Consolidated Financial Statements

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#### Note 6. Long-Term Obligations (Continued)

Terms of the interest rate and basis swap agreements obligate Touro to put aside collateral in favor of Merrill Lynch based on a predetermined formula. As of December 31, 2011 and 2010, the collateral account totaled approximately \$4,331,000 and \$5,678,000, respectively, and such amounts are included in assets limited as to use-restricted by bond indenture on the consolidated balance sheets.

At December 31, 2011, scheduled repayments of principal and sinking fund installments to retire the bonds are as follows (in thousands):

2012	\$ 1,815
2013	1,925
2014	2,045
2015	2,170
2016	2,305
Thereafter	<u>66,885</u>
Total	<u>\$ 77,145</u>

The Series 1993 and 1999 bonds are general obligations of Touro, and future revenues are pledged to repayment of the bonds. Additionally, as mentioned above, under the terms of the indenture agreement, Touro is required to maintain certain deposits with a trustee. The related debt agreements also place limits on the incurrence of additional borrowings and require that Touro satisfy certain measures of financial performance as long as the bonds are outstanding. In 2011, Touro met all measures of financial performance as defined in the loan agreements.

The System has entered into various capital leases for medical equipment and computer software, with terms ranging from two to five years with renewal options. Capital lease obligations of approximately \$1,139,000 as of December 31, 2011 are due within one year and include maintenance fees and imputed interest of approximately \$36,000 and \$214,000, respectively.

Rent expense for the System, which relates primarily to operating leases for medical and office equipment, was approximately \$5,837,000 and \$5,994,000 in 2011 and 2010, respectively. The future minimum rentals under these leases for the next five years range from approximately \$2,770,000 to \$5,036,000 per year.

Gross rental income earned in the System's operation of medical office buildings in 2011 and 2010, was approximately \$5,300,000 and \$4,750,000, respectively. The future minimum rental payments to be received by the System on noncancelable operating lease agreements for the next five years range from approximately \$1,398,000 to \$4,466,000 per year.



## **LOUISIANA CHILDREN'S MEDICAL CENTER**

### **Notes to Consolidated Financial Statements**

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#### **Note 7. Employee Retirement Plans**

##### **Defined Contribution Plans**

Children's sponsors a Section 403(b) defined contribution employee benefit plan, which covers substantially all employees who meet age and length of service requirements. The plan allows for participating employees to make contributions ranging up to 7% of their before-tax annual compensation and provides for retirement and death benefits. Children's makes matching contributions equal to 50 cents per dollar for the participating employee's annual contribution up to 7% of the before-tax employee contribution. In addition, Children's makes a core contribution equal to 5% of the participant's annual compensation. Employees of CHMPC participate in the plan and are eligible to receive a core contribution of 1.5% made by Children's. The match for the CHMPC participating employees equals 50 cents per dollar of employee's annual contributions up to 7% of the before tax employee contribution.

In addition, Children's elected to make an additional 3% discretionary contribution in 2011. Contributions by Children's to this plan during the years ended December 31, 2011 and 2010, were approximately \$8,484,000 and \$5,473,000, respectively. To comply with tax law changes, effective January 1, 2002, an employee becomes 100% vested in matching contributions after three full years of continuous service. Non-matching contributions and matching contributions made prior to January 1, 2002, will continue to vest after five full years of service.

Certain members of the Touro Group entities sponsor a Section 403(b) defined contribution employee benefit plan. For those entities, employees who are at least 21 years of age and have completed 1,000 hours of service during a 12-month period are eligible to participate. Participants may make matched tax-deferred contributions of up to 1% of eligible earnings, as defined. These contributions are then matched 1% by the employer up to \$1,000. Participants may also make unmatched tax-deferred contributions up to applicable Internal Revenue Service limitations. Participants fully vest in the employers' matched contributions after one year of service. During December 31, 2011 and 2010, matching contributions approximated \$610,000 and \$582,000, respectively.

##### **Defined Benefit Pension Plan**

Touro sponsors a defined benefit pension plan that covers substantially all full-time employees. The plan is noncontributory and provides benefits that are based on the participants' years of service and level of compensation. Each participant is entitled to an account balance that grows each year with pay, transition, employer match, and interest credits. Touro's funding policy is based on the minimum contributions required under the Employee Retirement Income Security Act of 1974 as determined by its consulting actuaries. Touro contributed approximately \$2,370,000 and \$2,636,000, to the plan in 2011 and 2010, respectively.

# LOUISIANA CHILDREN'S MEDICAL CENTER

## Notes to Consolidated Financial Statements

### Note 7. Employee Retirement Plans (Continued)

#### Defined Benefit Pension Plan (Continued)

The following table sets forth the plan's components of net periodic pension cost, change in projected benefit obligation, change in plan assets, funded status, and pension expense recognized by Touro as of and for the years ended December 31, 2011 and 2010, using the projected unit credit method with salary progression (in thousands):

	2011	2010
<b>Change in Benefit Obligation</b>		
Benefit Obligation at Beginning of Year	\$ 32,605	\$ 31,041
Service Cost	2,297	2,117
Interest Cost	1,707	1,763
Actuarial Loss (Gain)	4,377	(166)
Benefits Paid	(1,835)	(2,150)
Benefit Obligation at End of Year	39,151	32,605
<b>Change in Plan Assets</b>		
Fair Value of Plan Assets at Beginning of Year	26,838	24,616
Actual Return on Plan Assets	331	1,735
Benefits Paid	(1,835)	(2,150)
Employer Contributions	2,370	2,636
Fair Value of Plan Assets at End of Year	27,704	26,837
Funded Status (Underfunded)	\$ (11,447)	\$ (5,768)
<b>Net Periodic Pension Cost</b>		
Service Cost	\$ 2,297	\$ 2,117
Interest Cost	1,707	1,763
Actuarial Gain on Plan Assets	(331)	(1,736)
Net Amortization	(1,189)	449
Net Periodic Cost	\$ 2,484	\$ 2,593

Included in net assets at December 31<sup>st</sup>, are the following amounts that have not yet been recognized in net periodic postretirement benefit cost (in thousands):

	2011	2010
Unrecognized Net Actuarial Loss	\$ 14,130	\$ 8,715
Unrecognized Prior Service Cost	(523)	(674)
<b>Total Accrued Benefit Cost</b>	<b>\$ 13,607</b>	<b>\$ 8,041</b>

# LOUISIANA CHILDREN'S MEDICAL CENTER

## Notes to Consolidated Financial Statements

### Note 7. Employee Retirement Plans (Continued)

#### Defined Benefit Pension Plan (Continued)

Amounts included in net assets at December 31, 2011, that are expected to be amortized into net periodic postretirement cost during 2011 are provided below (in thousands):

	2011
Unrecognized Net Actuarial Loss	\$ (5,414)
Unrecognized Prior Service Cost	(151)
<b>Total</b>	<b>\$ (5,565)</b>

Weighted-average assumptions used to determine projected benefit obligations at December 31<sup>st</sup> were as follows:

	2011	2010
Discount Rate, Obligation	4.30%	5.40%
Discount Rate, Periodic Cost	5.40%	5.90%
Expected Return on Plan Assets	7.00%	7.00%
Rate of Compensation Increase	3.00%	3.00%
Cash Balance Interest Credit Rate	4.00%	4.00%

The defined benefit pension plan asset allocation as of the measurement date (January 1) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2011	2010	Target Allocation
Equity Securities	41%	53%	50% - 60%
Debt Securities	51%	43%	35% - 50%
Cash and Cash Equivalents	8%	4%	0% - 5%

The plan invests in a diversified mix of traditional asset classes, including equities, government and corporate fixed income debt securities, and cash and cash equivalents. The plan's overall allocation is based on mean variance optimization modeling using certain assumptions regarding expected return, risk, and correlations among various asset classes.

Asset allocation analysis considers various potential outcomes and probabilities of returns given current capital markets assumptions. In general, equity securities (both value and growth and active and passive) are utilized to provide expected returns above those of fixed income securities. Fixed income securities are utilized to provide a more stable and less volatile series of returns.

The fixed income portfolio contains only securities considered investment grade by maintaining a rating of at least BAA/BBB by Moody's or Standard and Poor's rating agencies.

## LOUISIANA CHILDREN'S MEDICAL CENTER

### Notes to Consolidated Financial Statements

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#### Note 7. Employee Retirement Plans (Continued)

##### Defined Benefit Pension Plan (Continued)

Professional money managers are delegated the day-to-day responsibility of managing individual portfolios within the context of certain diversification guidelines and to certain performance benchmark standards.

The plan's investment consultant provides quarterly performance reports to evaluate the achievement of overall return expectations of total investments as well as each manager's contribution, both on the basis of absolute and relative performance standards.

The plan's overall asset allocation is reviewed periodically to conform to current market conditions and expectations with regard to overall capital markets assumptions. Historical return patterns and correlations, expected return risk premium, and other multifactor considerations are utilized in the development of overall capital markets assumptions for the purpose of the plan's asset allocation determinations.

Touro expects to make contributions of approximately \$3,500,000 to the defined benefit pension plan in 2012.

For December 31, 2011 and 2010, Touro's plan had accumulated benefit obligations of approximately \$36,280,000 and \$30,470,000, respectively.

Future benefit payments expected to be paid in each of the next five fiscal years and in the aggregate for the following five years as of December 31, 2011, are as follows:

2012	\$ 1,090,000
2013	1,120,000
2014	1,150,000
2015	1,230,000
2016	1,350,000
2017 - 2021	8,650,000

##### Supplemental Executive Retirement Plan

Touro has a supplemental executive retirement plan with a former Chief Executive Officer (CEO) in which an annual payment is made over ten years and investment return is credited to the base amount due each year. In addition, Touro has a deferred compensation plan with this former CEO under an employment contract. Amounts payable under these plans totaled approximately \$2,269,000 and \$2,814,000, at December 31, 2011 and 2010, respectively. An additional deferred compensation trust exists, which has been recorded with an offsetting asset and liability in the amount of approximately \$1,164,000 and \$1,566,000, as of December 31, 2011 and 2010, respectively.

## **LOUISIANA CHILDREN'S MEDICAL CENTER**

### **Notes to Consolidated Financial Statements**

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#### **Note 7. Employee Retirement Plans (Continued)**

##### **Executive Benefit Plan**

Children's sponsors an Executive Benefit Plan benefiting members of senior management. This plan includes a flexible benefit allowance account and an executive employment retention plan. These plans define specific vesting dates and provide the executive with tax deferral opportunities. Total expenses related to the Executive Benefit Plan during the years ended December 31, 2011 and 2010, were approximately \$839,000 and \$782,000, respectively. In addition, in 2002, Children's established a 457(b) investment account that can be utilized by senior management. As of December 31, 2011 and 2010, the Hospital's total liability for these plans is \$1,849,000 and \$1,584,000, respectively, and is included in accrued compensation on the consolidated balance sheet. Related assets of \$1,849,000 and \$1,584,000, at December 31, 2011 and 2010, respectively, are recorded to fully settle these plan liabilities.

#### **Note 8. Insurance Programs**

##### **Medical Professional Liability**

The state of Louisiana enacted legislation that created a statutory limit of \$500,000 for each medical professional liability claim and established the Louisiana Patient Compensation Fund (State Insurance Fund) to provide professional liability insurance to participating health care providers.

The System participates in the State Insurance Fund, which provides up to \$400,000 coverage for settlement amounts in excess of \$100,000 per claim excluding litigation fees and expenses. The System is self-insured with respect to the first \$100,000.

##### **Workers' Compensation**

Children's is self-insured for workers' compensation claims up to \$500,000 in effect for fiscal periods beginning January 1, 2005 through January 1, 2010. The loss limit for workers' compensation claims was \$300,000 for fiscal periods starting January 1, 2000 through January 1, 2002, and \$350,000 for fiscal periods starting January 1, 2003 through January 1, 2004. In addition, Children's maintains excess workers' compensation coverage on an occurrence basis up to a specific limit of \$25,000,000 through an insurance carrier.

Touro is self-insured for workers' compensation claims up to \$750,000 in effect for periods beginning February 1, 2009 through January 31, 2012. The self-insured retention or loss limit for workers' compensation claims was \$250,000 for fiscal periods starting January 1, 2002 through December 31, 2002 and \$500,000 for periods starting January 1, 2003 through January 31, 2009. Insurance coverage exceeding these amounts is provided by a commercial carrier for claims up to a specific limit of \$25,000,000 per occurrence. Touro accrues for self-insured claims, claims administration costs, and legal fees based on an actuarial study. The estimated liability for workers' compensation claims in the consolidated balance sheet, which was discounted at 6% was approximately \$2,009,000 and \$2,046,000 at December 31, 2011, and 2010, respectively.

## **LOUISIANA CHILDREN'S MEDICAL CENTER**

### **Notes to Consolidated Financial Statements**

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#### **Note 8. Insurance Programs (Continued)**

##### **Health Insurance**

Touro offers subsidized health insurance to its employees through an employer-sponsored health plan. The self-insured plan obligates Touro to pay the first \$250,000 per claim. Insurance coverage exceeding these amounts is provided by a commercial carrier for claims up to \$1,000,000 per occurrence. The health insurance reserves were approximately \$1,754,000 and \$1,884,000 at December 31, 2011 and 2010, respectively. The estimated reserve for employee health care claims is based on actual claims history and includes estimates for administrative costs.

##### **In General**

Children's has purchased additional umbrella coverage on a claims-made basis of \$10,000,000 from an insurance carrier through July 31, 2010. Effective August 1, 2010, there is a claims-made policy for the System with a \$20,000,000 annual aggregate limit from an insurance carrier. Hospital management believes all asserted claims are covered and will be settled within the limits of the Hospital's coverage. The recorded liability, based upon an actuarial study and an additional internal assessment, totaled \$3,817,000 and \$5,168,000, discounted at 6%, at December 31, 2011 and 2010, respectively, for known claims and possible losses attributable to any workers' compensation, general, or professional liability incidents that may have occurred but that have not been identified under Children's incident reporting system. This amount is recorded in accounts payable on the consolidated balance sheets.

Touro has excess insurance coverage with an annual aggregate limit of \$30,000,000 that covers any settlement amounts that are in excess of \$1,000,000 through July 31, 2010 and a System claims-made policy with a \$20,000,000 annual aggregate limit from an insurance carrier effective August 1, 2010. Touro's management believes that all asserted claims are covered and will be settled within the limits of the Touro's coverage. Touro accrues for self-insured claims, claims administration costs, and legal fees based on an actuarial study and an additional internal assessment. The estimated liability for professional liability claims in the consolidated balance sheets, which was discounted at 6%, was approximately \$6,517,000 and \$6,367,000, at December 31, 2011 and 2010, respectively.

The System has reflected its estimate of the ultimate liability for known and incurred but not reported claims in the accompanying consolidated financial statements.

#### **Note 9. Concentrations of Credit Risk**

Patient accounts receivable are stated at estimated net realizable value. The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

## LOUISIANA CHILDREN'S MEDICAL CENTER

### Notes to Consolidated Financial Statements

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#### Note 9. Concentrations of Credit Risk (Continued)

The mix of receivables from patients and third-party payors at December 31<sup>st</sup>, was as follows:

	2011	2010
Medicare	8 %	8 %
Medicaid	33	33
Managed Care	50	50
Patients	8	8
Workers' Compensation	1	1
Total	100 %	100 %

Receivables from government-related programs (i.e., Medicare and Medicaid) represent the only concentrated group of credit risk for the System, and management does not believe that there are any credit risks associated with these government programs. Commercial and managed care receivables consist of receivables from various payors involved in diverse activities and subject to differing economic conditions and do not represent any concentrated credit risks to the System.

The System maintains allowances for uncollectible accounts for estimated losses resulting from a payor's inability to make payments on accounts. The System uses a balance sheet approach to value the allowance account based on historical write-offs and the aging of the accounts. Accounts are written off when collection efforts have been exhausted. Management continually monitors and adjusts its allowances associated with its receivables.

The System periodically maintains cash in bank accounts in excess of insured limits. The System has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

# LOUISIANA CHILDREN'S MEDICAL CENTER

## Notes to Consolidated Financial Statements

### Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31<sup>st</sup>, are available for the following purposes (in thousands):

	2011	2010
Specific Purpose Funds		
Research, Education and Other	\$ 4,930	\$ 5,095
Patient Care (Including Elder Care)	960	948
Lectures	296	310
Plant Funds		
Miscellaneous Renovation Projects	685	883
Total	\$ 6,871	\$ 7,236

### Note 11. Permanently Restricted Net Assets (Endowment Funds)

The State of Louisiana enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective August 15, 2010, the provisions of which apply to endowment funds existing on or established after that date. The Board has determined that the majority of the System's permanently restricted net assets meet the definition of endowment funds under UPMIFA.

The System holds donor-restricted endowment funds established primarily to fund specified activities for and within the System and the medical community as a whole. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted the State of Louisiana's UPMIFA as requiring the preservation of the fair value of the original gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the System classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed in UPMIFA.



# LOUISIANA CHILDREN'S MEDICAL CENTER

## Notes to Consolidated Financial Statements

### Note 11. Permanently Restricted Net Assets (Endowment Funds) (Continued)

In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purpose of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the System, and (7) the System's investment policies.

**Endowment Investment and Spending Policies** - The System has adopted investment and spending policies for endowment assets to achieve a disciplined, consistent management philosophy that accommodates reasonable and probable events. Preservation of capital and return on investment are of primary importance. The primary investment objective is to preserve financial assets generated through donor gifts, so that the proceeds may be distributed for the purposes intended by the donors and to the benefit of the System, at a level of risk deemed acceptable by the LCMC Board of Trustees. To satisfy its long-term rate-of-return objectives, the System relies on a strategy outlined by its investment managers and includes purchases of bonds, stocks, and cash and cash equivalents. The System will consider adjusting the amounts of funds that each manager has to manage on an ongoing basis.

The System's Endowment Net Asset Composition by fund type as of December 31, 2011, is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ -	\$ 7,917	\$ 7,917
Undesignated Funds	-	-	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,917</b>	<b>\$ 7,917</b>

# LOUISIANA CHILDREN'S MEDICAL CENTER

## Notes to Consolidated Financial Statements

### Note 11. Permanently Restricted Net Assets (Endowment Funds) (Continued)

A summary of the changes in the System's Endowment Net Assets for the year ended December 31, 2011, is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, Beginning of Year	\$ -	\$ 197	\$ 7,917	\$ 8,114
Investment Return				
Investment Income	-	356	-	356
Net Appreciation (Realized and Unrealized)	-	(272)	-	(272)
Total Investment Return	-	84	-	84
Contributions	-	-	-	-
Appropriation of Endowment Net Assets for Expenditure	-	(281)	-	(281)
Net Assets, End of Year	\$ -	\$ -	\$ 7,917	\$ 7,917

The System's Endowment Net Asset Composition by fund type as of December 31, 2010, is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ -	\$ 7,917	\$ 7,917
Undesignated Funds	-	197	-	197
Total	\$ -	\$ 197	\$ 7,917	\$ 8,114

A summary of the changes in the System's Endowment Net Assets for the year ended December 31, 2010, is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, Beginning of Year	\$ -	\$ 91	\$ 7,874	\$ 7,965
Investment Return:				
Investment Income (Loss)	-	182	-	182
Net Appreciation (Realized and Unrealized)	-	661	-	661
Total Investment Return	-	843	-	843
Contributions	-	-	43	43
Appropriation of Endowment Net Assets for Expenditure	-	(737)	-	(737)
Net Assets, End of Year	\$ -	\$ 197	\$ 7,917	\$ 8,114

## LOUISIANA CHILDREN'S MEDICAL CENTER

### Notes to Consolidated Financial Statements

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#### Note 12. Assets Held in Trust

Children's has been named the income beneficiary of a separate trust. Because the assets of the trust are not controlled by Children's and Children's does not have an irrevocable right to receive the income earned on the trust's assets, they are not included in Children's financial statements. The assets had a market value of approximately \$4,063,000 and \$4,096,000 at December 31, 2011 and 2010, respectively. Distributions of income are made at the discretion of the trustee. In 2011 and 2010, Children's recorded contribution income of approximately \$133,000 and \$129,000, respectively, received from the trust.

#### Note 13. Functional Expenses

The System provides general health care services, both inpatient and outpatient, to patients in the Gulf South region. For the year ended December 31, 2011 and 2010, expenses related to providing these services are as follows (in thousands):

	2011	2010
Health Care Services	\$ 385,602	\$ 380,412
Fiscal and Administrative Services	85,562	75,763
Total	<u>\$ 471,164</u>	<u>\$ 456,175</u>

#### Note 14. Fair Value of Financial Instruments

The carrying values of the System's financial instruments are primarily at or near fair value. The fair value of the System's long-term debt is estimated using discounted cash flow analyses, based on the System's incremental borrowing rate for similar types of borrowing arrangements. The basis for the fair value of its investments and interest rate and basis swap agreements is discussed further in this footnote.

The System has adopted the provisions of the Fair Value Measurements Topic of the FASB ASC. Under the Fair Value Measurements Topic of the FASB ASC, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Fair Value Measurements Topic of the FASB ASC establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

## LOUISIANA CHILDREN'S MEDICAL CENTER

### Notes to Consolidated Financial Statements

#### Note 14. Fair Value of Financial Instruments (Continued)

The fair value hierarchy is categorized into three levels based on the inputs as follows:

**Level 1** - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

**Level 2** - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, as of the reporting date.

**Level 3** - Valuations based on inputs that are unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2011, are summarized below (in thousands):

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
Cash	\$ 5,112	\$ -	\$ -	\$ 5,112
U.S. Government Securities	1,734	152	-	1,886
Marketable Equity Securities	233,532	124,817	19,902	378,251
Corporate Bonds	-	-	-	-
Other Fixed Income Securities	53,976	180,208	3,716	237,900
Mortgage-Backed Securities	-	5,455	-	5,455
Alternative Investments	-	-	-	-
Money Market Funds	24,668	22,673	-	47,341
Other	-	46,963	-	46,963
<b>Total</b>	<b>\$ 319,022</b>	<b>\$ 380,268</b>	<b>\$ 23,618</b>	<b>\$ 722,908</b>

<b>Liabilities</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
Interest Rate and Basis Swaps	\$ -	\$ 3,077	\$ -	\$ 3,077
<b>Total</b>	<b>\$ -</b>	<b>\$ 3,077</b>	<b>\$ -</b>	<b>\$ 3,077</b>

# LOUISIANA CHILDREN'S MEDICAL CENTER

## Notes to Consolidated Financial Statements

### Note 14. Fair Value of Financial Instruments (Continued)

The changes in investments measured at fair value for which the System has used Level 3 inputs to determine fair value for 2011, are as follows (in thousands):

	Level 3 Beginning Balance January 1, 2011	Realized and Unrealized Gains (Losses)	Purchases, Sales and Settlements	Net Transfers In and/or (Out) of Level 3	Level 3 Ending Balance December 31, 2011
Marketable Equity Securities	\$ 22,015	\$ (4,313)	\$ -	\$ 2,200	\$ 19,902
Other Fixed Income Securities	887	3,611	(7,669)	6,887	3,716
Alternative Investments	2,330	-	(2,330)	-	-
<b>Total</b>	<b>\$ 25,232</b>	<b>\$ (702)</b>	<b>\$ (9,999)</b>	<b>\$ 9,087</b>	<b>\$ 23,618</b>

Assets and liabilities measured at fair value on a recurring basis at December 31, 2010, are summarized below (in thousands):

Assets	Level 1	Level 2	Level 3	Total Fair Value
U.S. Government Securities	\$ 1,508	\$ 177	\$ -	\$ 1,685
Marketable Equity Securities	290,507	118,058	22,015	430,580
Corporate Bonds	-	-	-	-
Other Fixed Income Securities	3,330	225,854	887	230,071
Mortgage-Backed Securities	-	12,297	-	12,297
Alternative Investments	-	-	2,330	2,330
Money Market Funds	19,849	587	-	20,436
Other	-	36,658	-	36,658
<b>Total</b>	<b>\$ 315,194</b>	<b>\$ 393,631</b>	<b>\$ 25,232</b>	<b>\$ 734,057</b>

Liabilities	Level 1	Level 2	Level 3	Total Fair Value
Interest Rate and Basis Swaps	\$ -	\$ 6,591	\$ -	\$ 6,591
<b>Total</b>	<b>\$ -</b>	<b>\$ 6,591</b>	<b>\$ -</b>	<b>\$ 6,591</b>

**LOUISIANA CHILDREN'S MEDICAL CENTER****Notes to Consolidated Financial Statements**

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**Note 14. Fair Value of Financial Instruments (Continued)**

The changes in investments measured at fair value for which the System has used Level 3 inputs to determine fair value for 2010, are as follows (in thousands):

	Level 3 Beginning Balance January 1, 2010	Realized and Unrealized Gains (Losses)	Purchases, Sales and Settlements	Net Transfers In and/or (Out) of Level 3	Level 3 Ending Balance December 31, 2010
Marketable Equity Securities	\$ 18,459	\$ 1,356	\$ -	\$ 2,200	\$ 22,015
Other Fixed Income Securities	137,268	12,986	24,674	(174,041)	887
Alternative Investments	11,936	1,129	2,040	(12,775)	2,330
<b>Total</b>	<b>\$ 167,663</b>	<b>\$ 15,471</b>	<b>\$ 26,714</b>	<b>\$ (184,616)</b>	<b>\$ 25,232</b>

The System's measurements of fair value are made on a recurring basis and their valuation techniques for assets and liabilities recorded at fair value are as follows:

**Investments** - The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the investment.

**Interest Rate and Basis Swap Agreements** - The fair values of these agreements represent the estimated amount the System would pay to terminate these agreements at the reporting date, taking into account current interest rates and credit worthiness of the counterparty and the System.

## LOUISIANA CHILDREN'S MEDICAL CENTER

### Notes to Consolidated Financial Statements

#### Note 15. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors (in thousands):

	2011	2010
<b>Purpose Restrictions Accomplished</b>		
Capital Additions, Research and Education	\$ 4,909	\$ 6,760
Elder Care	203	29
Other	156	44
Funding of Nursing Educators	70	-
Rehabilitation	66	3
Pastoral Care	40	-
Charity Care	21	-
Surgery	18	14
Cardiology	2	-
Nursing Recruitment and Retention	-	34
<b>Total Restrictions Released</b>	<b>\$ 5,485</b>	<b>\$ 6,884</b>

Net assets released from restrictions are included as other operating revenue or other nonoperating income, depending upon the nature of the restriction, within unrestricted revenue on the consolidated statements of operations

#### Note 16. Woldenberg Village, Inc.

In 1999, Touro became the sole member of Woldenberg, a Louisiana nonprofit corporation, which owned and operated a 120-bed nursing home. On the same day, Woldenberg purchased from the Jewish Federation of Greater New Orleans (Federation), the Woldenberg Villas, a 60-unit independent living facility, at a cost of approximately \$2 million. In turn, the Federation donated two parcels of land adjacent to the nursing home and villas, with a fair value of \$374,000.

As a condition of becoming the sole member of Woldenberg Village, Inc., and receiving the donation of land from the Federation, Touro agreed, among other things, that it would cause Woldenberg to construct a new nursing home on the donated land, so as to replace the existing nursing home.

Approximately \$27 million of the 1999 bond proceeds, as described in Note 6, were used to finance a portion of the costs of constructing, furnishing, and equipping the new nursing home. This construction was completed in 2001.

## **LOUISIANA CHILDREN'S MEDICAL CENTER**

### **Notes to Consolidated Financial Statements**

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#### **Note 16. Woldenberg Village, Inc. (Continued)**

The transfer of the net assets of Woldenberg to Touro was based in part on Touro's pledge to continue the mission of providing nursing home services to the greater New Orleans Jewish community.

The Federation retains certain options with respect to the Woldenberg development in the event Touro should choose at a later date to cease providing such services or, should there be a change in control at Touro due to merger, consolidation or similar event. In the event that Touro were to cease providing such services or accept a change in their control, Touro would be obligated to pay the Federation approximately \$4 million.

During the years ended December 31, 2011 and 2010, Touro recorded impairment charges totaling approximately \$44,000 and \$214,000, respectively, related to Woldenberg. An impairment assessment was performed, and the fair value of the entity was estimated using the present value of future cash flows. These charges relate to the write-down of long-lived assets as future cash flows which are not projected to recover the outstanding book investment cost of one of three business units of Woldenberg Village. These charges, combined with the impairment charges recognized in previous years, represent a complete write-down of the undepreciated assets of the Willowwood business unit (a skilled nursing facility).

#### **Note 17. Commitments and Contingencies**

The System has certain pending and threatened litigation and claims incurred in the ordinary course of business; however, management believes that the probable resolution of such contingencies will not exceed the System's recorded reserves or insurance coverage, and will not materially affect the consolidated financial position, results of operations, changes in net assets, or cash flows of the System.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the System is in compliance with fraud and abuse, as well as other applicable government, laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.



## **LOUISIANA CHILDREN'S MEDICAL CENTER**

### **Notes to Consolidated Financial Statements**

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#### **Note 17. Commitments and Contingencies (Continued)**

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement a so-called Recovery Audit Contractor (RAC) and Medicaid Integrity Contractor (MIC) programs on a permanent and nationwide basis. The programs use RACs and MICs to search for potentially improper Medicare and Medicaid payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year ago but not longer than three years ago. Once a RAC or MIC identifies a claim it believes to be improper, it notifies the Hospital to formally begin an assessment process. Upon completion of the assessment and appeal process, it makes a deduction from the provider's Medicare and Medicaid reimbursement in an amount estimated to equal the overpayment.

The Hospital will deduct from revenue amounts assessed under the RAC and MIC audits after the assessment and appeals process is complete until such time that estimates of net amounts due can be reasonably estimated. RAC and MIC assessments against the Hospital are anticipated; however, the outcome of such assessments are unknown and cannot be reasonably estimated. Management has determined RAC and MIC assessments to be insignificant to date.

#### **Settlement of Certain Claims by the Government Related to Dr. Palazzo**

In April of 2008, Touro signed an agreement with the United States Department of Justice acting on behalf of the Office of Inspector General (OIG) of the Health and Human Services (HHS) agreeing to settle certain false claims related to charges submitted to the government by Dr. Carmen Palazzo.

The terms of the settlement included a payment to the government of \$1,750,000 in addition to reopening several prior year cost reports to ensure that all unallowed costs have been removed. At the same time, Touro also entered into a five-year Corporate Integrity Agreement (CIA) with the HHS OIG. This agreement obligates Touro to strengthen the current compliance program, and implement certain management practices and initiatives to ensure greater oversight of Touro's operations.

Additional terms of this agreement include engaging an independent third party to act as an Independent Review Organization, enhancing the contract management policies and procedures, and expanding employee education. Touro has also implemented further internal controls with respect to Medicare and Medicaid billing, reporting, and claims submission processes.

## **LOUISIANA CHILDREN'S MEDICAL CENTER**

### **Notes to Consolidated Financial Statements**

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#### **Note 17. Commitments and Contingencies (Continued)**

##### **Settlement of Certain Claims by the Government Related to Dr. Palazzo (Continued)**

A breach of the CIA could subject Touro to substantial monetary penalties and exclusion from participation in the Medicare and Medicaid programs. Management believes that Touro is in compliance with the terms and provisions of the CIA.

At this time, management believes that the costs related to the settlement and reopening of prior years' cost reports are adequately provided for by reserves established in prior years and the ultimate resolution of these issues will not have a material effect on the System's financial condition, results of operations, or cash flows.

##### **Electronic Health Records (EHR) Incentive Payments**

The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that adopt and meaningfully use certified EHR technology. These incentive payments are determined based on a formula, including inputs such as charity charges and total discharges. The revenue associated with EHR incentive payments is recognized by the System when management can provide reasonable assurance that the System will be able to demonstrate compliance with the meaningful use objectives for that reporting period and that the incentive payments will be received by the System. Because these incentive payments are based on management's best estimate, the amounts recognized are subject to change. Any changes resulting from a change in estimate would be recognized within operations in the period in which they occur. In addition, these payments and the related attestation of compliance with meaningful use objectives are subject to audit by the federal government or its designee.

For the year ended December 31, 2011, the System recognized approximately \$6,348,000 of revenue related to Medicaid incentive payments for EHR. This amount was recognized in full at the date of attestation and is included within other operating revenues on the consolidated statements of operations. No EHR incentive payments were recognized in 2010.

# LOUISIANA CHILDREN'S MEDICAL CENTER

## Notes to Consolidated Financial Statements

### Note 18. Community Support

The System supports and participates in numerous activities and programs that benefit the community. These activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

#### Children's:

CHAP is designed to assist families with income too high to qualify for Medicaid, but whose lack of resources limit their access to quality health care. Through CHAP, Children's provides health care services without charge to patients whose family income is between 200% (Medicaid Limit) and 350% of the Federal Poverty Income Guidelines. In addition to CHAP, the CHMPC increases the accessibility of health care to the indigent and underinsured through its Kids First pediatric primary care physician practices.

Children's continues to focus significant efforts on supporting the advancement of medical knowledge through research. The Children's Hospital Research for Children, opened since 1997, has completed its fifteenth year of operation in 2011.

Additionally, Children's supports the following programs: Mobile Dental Program, Children At Risk Evaluation ("CARE") Center, Inpatient Behavioral Health Program, Limited Intervention Program, the Parenting Center, Ventilator Assisted Care Program, Safe Kids Coalition, Greater New Orleans Immunization Network, Ambulatory Clinical and Nutritional Support Services, and the Miracle League.

The revenues and expenses associated with these programs for the year ended December 31, 2011, are detailed as follows (in thousands):

	2011						
	Research Institute	CHAP	Mobile Dental	CARE Center	Behavioral Health	Other	Total
Patient Revenues	\$ -	\$ 14,341	\$ 1,909	\$ 951	\$ 26,750	\$ 13,078	\$ 57,029
Revenue Deductions	-	(14,341)	(1,350)	(712)	(19,726)	(9,553)	(45,682)
Other Revenues	1,328		64	85	-	1,530	3,007
<b>Total Revenues</b>	<b>1,328</b>	<b>-</b>	<b>623</b>	<b>324</b>	<b>7,024</b>	<b>5,055</b>	<b>14,354</b>
<b>Total Expenses</b>	<b>7,567</b>	<b>4,241</b>	<b>1,517</b>	<b>1,211</b>	<b>7,672</b>	<b>7,822</b>	<b>30,030</b>
<b>Community Support, Net</b>	<b>\$ (6,239)</b>	<b>\$ (4,241)</b>	<b>\$ (894)</b>	<b>\$ (887)</b>	<b>\$ (648)</b>	<b>\$ (2,767)</b>	<b>\$ (15,676)</b>

# LOUISIANA CHILDREN'S MEDICAL CENTER

## Notes to Consolidated Financial Statements

### Note 18. Community Support (Continued)

#### Children's (Continued):

The revenues and expenses associated with these programs for the year ended December 31, 2010, are detailed as follows (in thousands):

	2010						
	Research Institute	CHAP	Mobile Dental	CARE Center	Behavioral Health	Other	Total
Patient Revenues	\$ -	\$ 16,715	\$ 1,880	\$ 633	\$ 22,143	\$ 10,734	\$ 52,105
Revenue Deductions	-	(16,715)	(1,279)	(487)	(16,900)	(7,923)	(43,284)
Other Revenues	1,760	-	216	157	234	1,946	4,313
<b>Total Revenues</b>	1,760	-	817	323	5,477	4,757	13,134
<b>Total Expenses</b>	(8,148)	(4,801)	(1,553)	(1,067)	(6,446)	(5,943)	(27,958)
<b>Community Support, Net</b>	<b>\$ (6,388)</b>	<b>\$ (4,801)</b>	<b>\$ (736)</b>	<b>\$ (744)</b>	<b>\$ (969)</b>	<b>\$ (1,186)</b>	<b>\$ (14,824)</b>

In 2011 and 2010, expenses of the community support programs include direct expenses and an allocation of indirect expenses as follows (in thousands):

	2011	2010
Direct Expenses	\$ 19,201	\$ 17,528
Indirect Expenses	10,829	10,430
<b>Total Expenses</b>	<b>\$ 30,030</b>	<b>\$ 27,958</b>

Indirect expenses represent estimates of patient care cost and allocated overhead using Medicare cost reporting methodologies.

These net revenues and expenses are included within the community support line item on the consolidated statements of operations.

In addition to the above community support activities, Children's provides additional benefits to Medicaid patients in the form of uncompensated patient care costs. Children's also emphasizes the importance of higher education and funds the teaching of students and health professionals through a comprehensive graduate medical education program. See Note 1 for further information on charity care costs.

#### The System:

Touro and Children's have collaborated with other healthcare providers (the Hospitals) to ensure the availability of, and to more cost effectively provide, quality healthcare services to low income and needy residents in the community. In order to best address the needs in the community, the collaborative Hospitals became members of four non-profit organizations, Louisiana Clinical Services, Inc. (LCS), Southern Louisiana Clinical Services, Inc. (SLCS), Eastern Louisiana Clinical Services, Inc. (ELCS), and Natchitoches Clinical Services, Inc. (NCS), collectively, the Non-Profits.

## LOUISIANA CHILDREN'S MEDICAL CENTER

### Notes to Consolidated Financial Statements

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#### Note 18. Community Support (Continued)

##### **The System (Continued):**

The Hospitals contribute funds to the Non-Profits, which are then used to support the provisions of the hospital and clinical physician services, specialty physician services and other healthcare services. For the years ended December 31, 2011 and 2010, the System contributed approximately \$1,710,000 and \$-0-, respectively, to these non-profit organizations. These expenses are included within the community support line item on the consolidated statements of operations.

#### Note 19. Accounting for Uncertainty in Taxes

For the year ended December 31, 2009, the System adopted the provisions of the *Accounting for Uncertainty in Income Taxes* Topic of the FASB ASC. The System recognizes a threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on recognition, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The System's tax filings are subject to audit by various taxing authorities. The System's open audit periods are 2008 through 2011. There are currently no returns under examination. Management evaluated the System's tax positions and considered that the System had taken no uncertain tax positions that require adjustments to the financial statements to comply with the provisions of this guidance.

#### Note 20. Upper Payment Limit Program

Children's, Touro and other health care providers have collaborated with the State and units of local government in Louisiana, to more fully fund the Medicaid program and ensure the availability of quality healthcare services for the low income and needy residents in the community population. The provision for this care directly to low income and needy patients will result in the alleviation of the expense of public funds the governmental entities previously expended on such care, thereby allowing the governmental entities to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL). Each State's UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs. As of December 31, 2011 and 2010, the System has received UPL payments of approximately \$8,662,000 and \$3,407,000, respectively, which are recognized in net patient service revenue on the consolidated statements of operations.

## **LOUISIANA CHILDREN'S MEDICAL CENTER**

### **Notes to Consolidated Financial Statements**

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#### **Note 21. Prior Period Adjustments**

As of January 1, 2011, the System elected to adopt a different accounting policy for the recognition of payments received from the Upper Payment Limit program detailed in Note 20. Under the new policy, payments are recognized in net patient service revenue in the period received rather than deferred and amortized over the life of the program contract. Management believes that the recognition of payments when received provides reliable and more relevant information because it more accurately reflects the nature of the transaction. The effect of adopting the new policy was to increase net patient service revenue and decrease other current liabilities by approximately \$3,407,000 in 2010. The 2010 consolidated financial statements have been restated to reflect this change.

The accompanying consolidated financial statements for 2010 have been restated to correct an error made in prior years related to penalties assessed from hiring an employee that was listed as an excluded individual by the Officer of Inspector General. The effect of the restatement was to increase accounts payable by approximately \$564,000 at December 31, 2010, increase operating expense by approximately \$69,000 for the year ended December 31, 2010, and decrease the 2010 beginning unrestricted net assets by approximately \$495,000.

The accompanying supplementary financial statements for Touro and Children's have been restated to correct an error made in the prior year related to a donation that Touro elected to make to Children's. Management believes that the recognition of this donation in the year ended December 31, 2010 more accurately reflects the nature and purpose of this donation. The effect of the restatement to Touro's financial statements was to increase 2010 operating expense and other current liabilities, at December 31, 2010, by approximately \$1,703,000. The effect of the restatement to Children's financial statements was to increase 2010 other operating income and other receivables, at December 31, 2010, by approximately \$1,703,000. There is no effect of this transaction on the consolidated financial statements for 2010.

In addition, the accompanying consolidated financial statements for 2010 have been restated to correct an error made in prior years related to the improper recordation and remittance of sales taxes at Touro. The effect of the restatement was to increase accounts payable at December 31, 2010 by approximately \$584,000, increase 2010 operating expense by approximately \$264,000, and decrease 2010 beginning unrestricted net assets by approximately \$320,000.

#### **Note 22. Subsequent Events**

Management has evaluated subsequent events through the date that the financial statements were available to be issued, March 26, 2012, and determined that the no events occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

## **SUPPLEMENTARY INFORMATION**



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## **Independent Auditor's Report on Supplementary Information**

To the Governing Board of Trustees  
Louisiana Children's Medical Center

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The supplemental balance sheets, statements of operations, changes in net assets and cash flows as of and for the years ended December 31, 2011 and 2010 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of LCMC's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "LaPorte".

A Professional Accounting Corporation

March 26, 2012

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**CHILDREN'S HOSPITAL**  
**Balance Sheets**  
**As of December 31, 2011 and 2010 (in Thousands)**

	2011	2010 (As Restated)
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 7,428	\$ 8,201
Assets Limited as to Use	-	-
Patient Accounts Receivable, Net of Allowance for Doubtful Accounts of \$4,411 and \$3,989 in 2011 and 2010, Respectively	28,599	23,477
Other Receivables	7,915	5,869
Inventories	6,407	5,957
Prepaid Expenses and Other Assets	2,779	3,267
Estimated Third Party Settlements	-	1,493
<b>Total Current Assets</b>	<b>53,128</b>	<b>48,264</b>
<b>Assets Limited as to Use</b>		
Designated for Capital Projects and Specific Programs	658,300	654,086
Restricted by Bond Indenture, Debt Service Reserve	-	-
Donor-Restricted Long-Term Investments	2,692	2,679
Restricted Other	-	-
Less: Amount Required for Current Obligations	-	-
	<b>660,992</b>	<b>656,765</b>
<b>Property, Plant and Equipment, Net</b>	<b>104,438</b>	<b>106,302</b>
<b>Other Assets</b>	<b>-</b>	<b>-</b>
<b>Total Assets</b>	<b>\$ 818,558</b>	<b>\$ 811,331</b>

See independent auditor's report on supplementary information.

**CHILDREN'S HOSPITAL**  
**Balance Sheets (Continued)**  
**As of December 31, 2011 and 2010 (in Thousands)**

	2011	2010 (As Restated)
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Trade Accounts Payable	\$ 11,377	\$ 10,285
Accrued Salaries and Wages	11,020	9,624
Current Maturities of Bonds Payable	-	-
Current Portion of Capital Lease Obligations	-	-
Current Portion of Estimated Employee Health and Workers' Compensation Claims	1,502	1,586
Current Portion of Estimated Professional Liabilities Claims	957	649
Estimated Third Party Payor Settlements, Net	9,190	-
Other	2,255	582
<b>Total Current Liabilities</b>	<b>36,301</b>	<b>22,726</b>
 Bonds Payable, Net of Current Portion	 -	 -
Capital Lease Obligations, Net of Current Portion	-	-
Estimated Workers' Compensation Claims, Net of Current Portion	495	526
Estimated Professional Liability Claims, Net of Current Portion	2,017	3,603
Employee Benefits	3,289	2,644
<b>Total Liabilities</b>	<b>42,102</b>	<b>29,499</b>
 <b>Minority Interest</b>	 -	 -
 <b>Net Assets</b>		
Unrestricted	773,764	779,153
Temporarily Restricted	2,506	2,493
Permanently Restricted	186	186
<b>Total Net Assets</b>	<b>776,456</b>	<b>781,832</b>
 <b>Total Liabilities and Net Assets</b>	 <b>\$ 818,558</b>	 <b>\$ 811,331</b>

See independent auditor's report on supplementary information.

**CHILDREN'S HOSPITAL**  
**Statements of Operations**  
**For the Years Ended December 31, 2011 and 2010 (in Thousands)**

	2011	2010 (As Restated)
<b>Unrestricted Revenues, Gains and Other Support</b>		
Net Patient Service Revenues	\$ 206,606	\$ 191,445
Other Operating Revenues	20,565	13,659
<b>Total Operating Revenues</b>	<b>227,171</b>	<b>205,104</b>
<b>Operating Expenses</b>		
Employee Compensation and Benefits	113,480	104,875
Purchased Services	19,843	16,349
Professional Fees	26,009	26,466
Supplies and Other Expenses	45,947	45,964
Provision for Doubtful Accounts	4,313	3,721
Depreciation and Amortization	10,976	11,134
Impairment Losses	-	-
Interest	-	-
<b>Total Operating Expenses</b>	<b>220,568</b>	<b>208,509</b>
<b>Income (Loss) from Operations</b>	<b>6,603</b>	<b>(3,405)</b>
Investment Income	2,783	80,925
Other Nonoperating Income (Loss)	902	(14,540)
Community Support, Net	(15,677)	(14,824)
<b>(Decrease) Increase in Unrestricted Net Assets</b>	<b>(5,389)</b>	<b>48,156</b>
<b>Noncontrolling Interests in Income of Consolidating Subsidiaries</b>	<b>-</b>	<b>-</b>
<b>(Decrease) Increase in Unrestricted Net Assets Before Other Changes</b>	<b>(5,389)</b>	<b>48,156</b>
<b>Adjustment to Pension Liability</b>	<b>-</b>	<b>-</b>
<b>(Decrease) Increase in Unrestricted Net Assets</b>	<b>\$ (5,389)</b>	<b>\$ 48,156</b>

See independent auditor's report on supplementary information.

**CHILDREN'S HOSPITAL**  
**Statements of Changes in Net Assets**  
**For the Years Ended December 31, 2011 and 2010 (In Thousands)**

	2011	2010 (As Restated)
<b>Unrestricted Net Assets</b>		
(Decrease) Increase in Unrestricted Net Assets	\$ (5,389)	\$ 48,156
<b>Temporarily Restricted Net Assets</b>		
Contributions	4,715	5,021
Investment Income	-	-
Net Assets Released from Restrictions	(4,702)	(6,588)
<b>Increase (Decrease) in Temporarily Restricted Net Assets</b>	<b>13</b>	<b>(1,567)</b>
<b>Change in Permanently Restricted Net Assets</b>	<b>-</b>	<b>-</b>
<b>(Decrease) Increase in Net Assets</b>	<b>(5,376)</b>	<b>46,589</b>
<b>Net Assets, Beginning of Year</b>	<b>781,832</b>	<b>735,243</b>
<b>Net Assets, End of Year</b>	<b>\$ 776,456</b>	<b>\$ 781,832</b>

See independent auditor's report on supplementary information.

**CHILDREN'S HOSPITAL**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2011 and 2010 (In Thousands)**

	2011	2010 (As Restated)
<b>Cash Flows from Operating Activities</b>		
(Decrease) Increase in Net Assets	\$ (5,376)	\$ 46,589
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Adjustment to Pension Liability	-	-
Noncontrolling Interest in Income of Consolidated Subsidiaries	-	-
Depreciation and Amortization	12,714	12,906
Net Loss on Disposal/Sale of Assets	113	78
Impairment Losses	-	-
Gain on Release of Asset Retirement	-	-
Provision for Doubtful Accounts	4,313	3,721
Change in Operating Assets and Liabilities		
Increase in Patient Accounts Receivable	(9,435)	(2,479)
Increase in Other Receivables	(2,046)	(2,269)
Increase in Inventory	(450)	(490)
Decrease in Other Current Assets	488	278
Increase in Investments Limited as to Use	(4,227)	(50,315)
Increase in Trade Accounts Payable	1,092	448
Increase in Accrued Salaries and Wages	1,396	327
Increase (Decrease) in Third-Party Payor Settlements	10,683	(479)
Increase in Other Liabilities	925	2,780
<b>Net Cash Provided by Operating Activities</b>	<b>10,190</b>	<b>11,095</b>
<b>Cash Flows from Investing Activities</b>		
Capital Expenditures	(10,963)	(12,467)
Proceeds from Sale of Assets	-	-
<b>Net Cash Used in Investing Activities</b>	<b>(10,963)</b>	<b>(12,467)</b>
<b>Cash Flows from Financing Activities</b>		
Payments on Capital Lease Obligation	-	-
Repayments of Bonds Payable	-	-
Distributions Paid to Noncontrolling Interests	-	-
<b>Net Cash Used in Financing Activities</b>	<b>-</b>	<b>-</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(773)</b>	<b>(1,372)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>8,201</b>	<b>9,573</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 7,428</b>	<b>\$ 8,201</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash Paid for Interest	\$ -	\$ -
Property, Plant and Equipment Purchases in Accounts Payable	\$ -	\$ -

See independent auditor's report on supplementary information.

**TOURO INFIRMARY AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
**As of December 31, 2011 and 2010 (in Thousands)**

	2011	2010 (As Restated)
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 2,423	\$ 7,479
Assets Limited as to Use	2,334	2,108
Patient Accounts Receivable, Net of Allowance for Doubtful Accounts of \$9,364 and \$9,494 in 2011 and 2010, Respectively	24,683	23,093
Other Receivables	2,477	2,330
Inventories	4,220	4,167
Prepaid Expenses and Other Assets	2,216	2,591
<b>Total Current Assets</b>	<b>38,353</b>	<b>41,768</b>
<b>Assets Limited as to Use</b>		
Designated for Capital Projects and Specific Programs	37,866	51,770
Restricted by Bond Indenture, Debt Service Reserve	14,042	15,163
Donor-Restricted Long-Term Investments	9,408	9,759
Restricted Other	600	600
Less: Amount Required for Current Obligations	(2,334)	(2,108)
	59,582	75,184
<b>Property, Plant and Equipment, Net</b>	<b>131,204</b>	<b>125,561</b>
<b>Other Assets</b>	<b>3,071</b>	<b>3,398</b>
<b>Total Assets</b>	<b>\$ 232,210</b>	<b>\$ 245,911</b>

See independent auditor's report on supplementary information.

**TOURO INFIRMARY AND SUBSIDIARIES**  
**Consolidated Balance Sheets (Continued)**  
**As of December 31, 2011 and 2010 (in Thousands)**

	2011	2010 (As Restated)
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Trade Accounts Payable	\$ 15,485	\$ 15,197
Accrued Salaries and Wages	8,718	8,734
Current Maturities of Bonds Payable	1,815	950
Current Portion of Capital Lease Obligations	1,138	1,407
Current Portion of Estimated Employee Health and Workers' Compensation Claims	2,601	2,371
Current Portion of Estimated Professional Liabilities Claims	2,113	2,779
Estimated Third Party Payor Settlements, Net	2,803	3,056
Other	10,406	12,944
<b>Total Current Liabilities</b>	<b>45,079</b>	<b>47,438</b>
 Bonds Payable, Net of Current Portion	 74,637	 86,115
Capital Lease Obligations, Net of Current Portion	-	1,139
Estimated Workers' Compensation Claims, Net of Current Portion	1,162	1,559
Estimated Professional Liability Claims, Net of Current Portion	4,405	3,587
Employee Benefits	14,640	9,696
<b>Total Liabilities</b>	<b>139,923</b>	<b>149,534</b>
 <b>Minority Interest</b>	 <b>623</b>	 <b>760</b>
 <b>Net Assets</b>		
Unrestricted	79,568	83,143
Temporarily Restricted	4,365	4,743
Permanently Restricted	7,731	7,731
<b>Total Net Assets</b>	<b>91,664</b>	<b>95,617</b>
 <b>Total Liabilities and Net Assets</b>	 <b>\$ 232,210</b>	 <b>\$ 245,911</b>

See independent auditor's report on supplementary information.

**TOURO INFIRMARY AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
**For the Years Ended December 31, 2011 and 2010 (in Thousands)**

	2011	2010 (As Restated)
<b>Unrestricted Revenues, Gains and Other Support</b>		
Net Patient Service Revenues	\$ 247,255	\$ 249,186
Other Operating Revenues	11,248	8,119
Net Assets Released from Restrictions, Operating	330	-
<b>Total Operating Revenues</b>	<b>258,833</b>	<b>257,305</b>
<b>Operating Expenses</b>		
Employee Compensation and Benefits	120,488	118,264
Purchased Services	64,812	61,496
Professional Fees	-	-
Supplies and Other Expenses	42,818	42,134
Provision for Doubtful Accounts	10,159	8,691
Depreciation and Amortization	16,166	15,441
Impairment Losses	44	214
Interest	3,920	4,825
<b>Total Operating Expenses</b>	<b>258,407</b>	<b>251,065</b>
<b>Income from Operations</b>	<b>426</b>	<b>6,240</b>
Investment Income	2,813	4,959
Other Nonoperating (Loss) Income	(812)	16,795
Community Support, Net	(855)	-
Net Assets Released from Restrictions, Nonoperating	453	296
<b>Increase in Unrestricted Net Assets</b>	<b>2,025</b>	<b>28,290</b>
<b>Noncontrolling Interests in Income of Consolidating Subsidiaries</b>	<b>21</b>	<b>22</b>
<b>Increase in Unrestricted Net Assets Before Other Changes</b>	<b>2,046</b>	<b>28,312</b>
<b>Adjustment to Pension Liability</b>	<b>(5,621)</b>	<b>660</b>
<b>(Decrease) Increase in Unrestricted Net Assets</b>	<b>\$ (3,575)</b>	<b>\$ 28,972</b>

See independent auditor's report on supplementary information.



**TOURO INFIRMARY AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Net Assets**  
**For the Years Ended December 31, 2011 and 2010 (in Thousands)**

	2011	2010 (As Restated)
<b>Unrestricted Net Assets</b>		
(Decrease) Increase in Unrestricted Net Assets	\$ (3,575)	\$ 28,972
<b>Temporarily Restricted Net Assets</b>		
Contributions	343	505
Investment Income	62	1,264
Net Assets Released from Restrictions	(783)	(296)
(Decrease) Increase in Temporarily Restricted Net Assets	(378)	1,473
<b>Change in Permanently Restricted Net Assets</b>	-	43
(Decrease) Increase in Net Assets	(3,953)	30,488
<b>Net Assets, Beginning of Year, as Previously Reported</b>	95,617	65,945
<b>Prior Period Adjustment - Correction of Error</b>	-	(816)
<b>Net Assets, Beginning of Year, as Restated</b>	95,617	65,129
<b>Net Assets, End of Year</b>	\$ 91,664	\$ 95,617

See independent auditor's report on supplementary information.

**TOURO INFIRMARY AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2011 and 2010 (in Thousands)**

	2011	2010 (As Restated)
<b>Cash Flows from Operating Activities</b>		
(Decrease) Increase in Net Assets	\$ (3,953)	\$ 30,488
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Adjustment to Pension Liability	5,621	(660)
Noncontrolling Interest in Income of Consolidated Subsidiaries	(21)	(22)
Depreciation and Amortization	16,166	15,441
Net Loss (Gain) on Disposal/Sale of Assets	181	(70)
Impairment Losses	44	214
Gain on Release of Asset Retirement	-	(1,421)
Provision for Doubtful Accounts	10,159	8,691
Change in Operating Assets and Liabilities		
Increase in Patient Accounts Receivable	(11,660)	(9,298)
(Increase) Decrease in Other Receivables	(146)	813
Increase in Inventory	(55)	(331)
Decrease in Other Current Assets	346	761
Decrease (Increase) in Investments Limited as to Use	15,376	(17,868)
Decrease in Other Assets	234	342
Increase in Trade Accounts Payable	313	976
(Decrease) Increase in Accrued Salaries and Wages	(16)	790
Decrease in Third-Party Payor Settlements	(253)	(2,003)
(Decrease) Increase in Other Liabilities	(3,062)	2,234
<b>Net Cash Provided by Operating Activities</b>	<b>29,274</b>	<b>29,077</b>
<b>Cash Flows from Investing Activities</b>		
Capital Expenditures	(22,446)	(20,765)
Proceeds from Sale of Assets	329	70
<b>Net Cash Used In Investing Activities</b>	<b>(22,117)</b>	<b>(20,695)</b>
<b>Cash Flows from Financing Activities</b>		
Payments on Capital Lease Obligation	(1,407)	(1,455)
Repayments of Bonds Payable	(10,690)	(4,115)
Distributions Paid to Noncontrolling Interests	(116)	(151)
<b>Net Cash Used in Financing Activities</b>	<b>(12,213)</b>	<b>(5,721)</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(5,056)</b>	<b>2,661</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>7,479</b>	<b>4,818</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 2,423</b>	<b>\$ 7,479</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash Paid for Interest	\$ 5,082	\$ 5,558
Property, Plant and Equipment Purchases in Accounts Payable	\$ 1,957	\$ 3,573

See independent auditor's report on supplementary information.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Children's Hospital  
New Orleans, Louisiana

We have audited the financial statements of Children's Hospital (the Hospital), as of and for the year ended December 31, 2011, and have issued our report thereon dated March 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Trustees, management, the Legislative Auditor of the State, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in cursive script, appearing to read "LaForte".

A Professional Accounting Corporation

March 26, 2012



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Children's Hospital  
New Orleans, Louisiana

**Compliance**

We have audited Children's Hospital's (the Hospital) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2011. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with those requirements.

In our opinion, the Hospital complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

**Internal Control Over Compliance**

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.

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In planning and performing our audit, we considered the Hospital's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of the Hospital, as of and for the year ended December 31, 2011, and have issued our report thereon dated March 26, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees, management, the Legislative Auditor of the State, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



A Professional Accounting Corporation

March 26, 2012

**CHILDREN'S HOSPITAL**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2011**

<b>Federal Grantor/Pass-Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity No.</b>	<b>Federal Revenue/ Expenditures Recognized</b>
<b>Research and Development Cluster</b>			
Department of Health and Human Services:			
National Institutes of Health direct programs:			
Transcription Factors in Neuroendocrine Differentiation	93.847		\$ (14,092)
Microbial Correlates of Bacterial Vaginosis Treatment Failure and Recurrence in H	93.855		414,831
Impact of Biological Variation in A1c on Mortality, Cardiovascular Event and Hypoglycemia in the ACCORD Study	93.837		50,533
ARRA - Atypical G Protein Signaling in Cryptococcus Neoformans	93.701		211,302
Pass-through programs from:			
Louisiana State University Agricultural and Mechanical College on behalf of Louisiana State University Health Sciences Center - Mechanisms for the Metabolic Syndrome in Prepubertal African American & Caucasian Youth	93.865	R01HD49046	(339)
Louisiana State University Agricultural and Mechanical College on behalf of Louisiana State University Health Sciences Center - Minority-Based Community Clinical Oncology Program	93.395	5U10CA63845-12 5U10CA63845-13	70,551
University of Pittsburg - Novel Bacterial Pathogens in Pelvic Inflammatory Disease	93.855	5R01A1073940-03 and -04	64,623
University of TX HSC at Houston - Phase 1 Safety & Tolerance of Lactobacillus Reuteri in Adults	93.213	5U01AT003519-02	6,428
University of Kansas Medical Center - A Randomized Controlled Trial of Amitriptyline for Chronic Oral Food Refusal - SUPPLEMENT	93.865	3 R21 HD066629-01S1	4,457
University of Kansas Medical Center - A Randomized Controlled Trial of Amitriptyline for Chronic Oral Food Refusal	93.865	QD851460	45,519
ARRA - Louisiana State University Agricultural and Mechanical College on behalf of Louisiana State University Health Sciences Center - Clinical Study ANB1091	93.701	3U10CA98543-0751	39,619
<b>Total Research and Development Cluster</b>			<b>893,432</b>

**CHILDREN'S HOSPITAL**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended December 31, 2011**

<b>Federal Grantor/Pass-Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity No.</b>	<b>Federal Revenue/ Expenditures Recognized</b>
<b>Department of Health and Human Services</b>			
Health Resources and Services Administration direct programs:			
Ryan White Title IV Program	93.153		2,085,673
Pass-through programs from:			
City of New Orleans:			
Ryan White Medical Case Management	93.914	K11-428	157,258
Ryan White Mental Health Therapy	93.914	K11-428	64,924
Ryan White Medical Transportation	93.914	K11-872	30,007
Ryan White Non Medical Case Management	93.914	K11-428	44,289
State of Louisiana:			
HHS Emergency Preparedness	93.889	N/A	27,674
Community Based Family Resources Support Grant	93.590	705945	5,520
Louisiana Office of Public Health:			
Diabetes Contract	93.994	B04MC07804	120,029
Maternal & Child Health	93.994	B04MC21422	46,543
Children's Special Health Services	93.994	B04MC11257	80,632
Louisiana Public Health Institute:			
Primary Care Access & Stabilization	93.776	1MOCMS030175/01	96,041
<b>Total Department of Health and Human Services</b>			<b>2,758,590</b>
<b>U.S. Department of Education</b>			
Passed through from Louisiana Department of Education:			
Children's Hospital, Ventilator Assisted Care Project	84.027	704,168	140,771
<b>U.S. Department of Justice</b>			
Passed through from Louisiana Commission on Law Enforcement:			
New Orleans Children's Advocacy Center	16.575	C09-9-006	51,652
<b>U.S. Department of Homeland Security:</b>			
Federal Emergency Management Assistance	97.036		348,641
<b>Total Expenditures of Federal Awards</b>			<b>\$ 4,193,086</b>



## CHILDREN'S HOSPITAL

### Notes to Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2011

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#### Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Children's Hospital and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

#### Note 2. Subrecipients

Of the federal expenditures presented in the schedule, Children's Hospital provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Ryan White Title IV Program	93.153	\$ 1,053,117
Impact of Biological Variation in A1c on Mortality, Cardiovascular Event and Hypoglycemia in the ACCORD Study	93.837	\$ 31,742
Microbial Correlates of Bacterial Vaginosis Treatment Failure and Recurrence in H	93.855	\$ 225,820

# CHILDREN'S HOSPITAL

## Schedule of Findings and Questioned Costs For the Year Ended December 31, 2011

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### Part I - Summary of Auditor's Results

#### Financial Statement Section

Type of Auditor's Report Issued: Unqualified

#### Internal Control over Financial Reporting:

Material Weakness(es) Identified? No

Significant Deficiency(ies) Identified not Considered  
to be Material Weakness? No

Noncompliance Material to Financial Statements Noted? No

#### Federal Awards Section

#### Internal Control over Major Programs:

Material weakness(es) identified? No

Significant Deficiency(ies) Identified not Considered  
to be Material Weakness? No

Type of Auditor's Report Issued on Compliance for Major Programs: Unqualified

Any Audit Findings Disclosed that are Required to be Reported in Accordance  
with Circular A-133 (section .510(a))? No

#### Identification of Major Programs:

<u>Title</u>	<u>CFDA Number</u>
Federal Emergency Management Assistance	97.036
Research & Development Cluster	Various

Dollar Threshold used to Determine Type A Programs: \$303,105

Auditee Qualified as Low-Risk Auditee? Yes

**CHILDREN'S HOSPITAL**

**Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended December 31, 2011**

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**Part II - Schedule of Financial Statement Findings Section**

No findings were noted.

**Part III - Federal Awards Findings and Questioned Costs Section**

No findings were noted.

**CHILDREN'S HOSPITAL**

**Summary Schedule of Prior Year Audit Findings  
For the Year Ended December 31, 2011**

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None.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Governing Board of Trustees  
Touro Infirmary and Subsidiaries

We have audited the consolidated financial statements of Touro Infirmary and subsidiaries (Touro) as of and for the year ended December 31, 2011, and have issued our report thereon dated March 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Touro's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Touro's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Touro's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Touro's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Touro in a separate letter dated March 26, 2012.

This report is intended solely for the information and use of the Board of Trustees, management, and the Legislative Auditor of the State and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in cursive script, appearing to read "LaForte".

A Professional Accounting Corporation

March 26, 2012

## **TOURO INFIRMARY**

### **Schedule of Findings and Responses For the Year Ended December 31, 2011**

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#### **Part I - Summary of Auditor's Results**

##### **Financial Statement Section**

Type of Auditor's Report Issued	Unqualified
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##### **Internal Control over Financial Reporting:**

Material Weakness(es) Identified?	No
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Significant Deficiency(ies) Identified not Considered to be Material Weaknesses?	No
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Noncompliance Material to Financial Statements Noted?	No
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##### **Federal Awards Section - Not applicable**

#### **Part II - Financial Statement Findings Section**

No findings were noted.

**TOURO INFIRMARY**

**Summary Schedule of Prior Year Audit Findings  
For the Year Ended December 31, 2011**

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None.





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To the Governing Board of Trustees  
Louisiana Children's Medical Center

In planning and performing our audit of the consolidated financial statements of Louisiana Children's Medical Center (LCMC) (the Hospital), for the year ended December 31, 2011 in accordance with auditing standards generally accepted in the United States of America, we considered LCMC's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express such an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

We did, however, become aware of several matters that are opportunities for strengthening internal controls and operating efficiency. These comments are included in the attachment to this letter as items 2011-1 through 2011-2.

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We have already discussed many of these comments and suggestions with various Hospital personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the use of management and the Governing Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "LaForte".

A Professional Accounting Corporation

March 26, 2012

### **2011-1 Segregation of Duties – Woldenberg Village**

**Observation:** At the conclusion of our 2009 audit, we reported that there were incompatible financial functions being performed by individuals at Woldenberg Village. Specifically, a number of individuals had the ability to receive cash receipts and prepare bank deposits, while at the same time possessing computer rights to post cash receipts to patient accounts, write-off patient account balances, and reconcile the general ledger to the bank statement. This lack of segregation of duties increases the risk that misappropriation of assets or errors could occur and not be detected timely. As a response to our comment, management engaged a consultant to review internal controls and the segregation of duties surrounding significant processes. A project related to the review and re-assignment of job functions at Woldenberg Village was begun in 2010. Due to the significant number of cycles involved, the project continued throughout 2011 and has progressed into 2012.

**Recommendation:** We recommend that the entity continue with the current project regarding internal controls and segregation of duties. Once completed, management should assess control processes on an ongoing basis to ensure they are operating as designed. As a part of this assessment, management should monitor for changes in operations and/or personnel to ensure that the effectiveness of the control policies are not compromised by these changes.

**Management's Response:** In 2010, Management began a project to assess internal controls, including segregation of duties, at Woldenberg Village. The project is on-going, and controls will continue to be monitored on an on-going basis for effectiveness.

### **2011-2 Internal Controls of Subsidiaries**

**Observation:** Also at the conclusion of our 2009 audit, we noted that there was only minimal documentation of policies and procedures in place at CCPI and there was no documentation establishing policies and procedures at Woldenberg Village. Instead, reliance was placed on the financial reporting of subsidiaries with no understanding of the controls supporting the reliability of such reporting. In response to our comment, management engaged a consultant to review internal controls and segregation of duties surrounding significant processes. A project related to the preparation of flowcharts and policies over key processes at Woldenberg Village was begun in 2010. Due to the significant number of cycles involved, the project continued throughout 2011 and has progressed into 2012. A review of IT security is included within this project. A similar exercise is scheduled for CCPI beginning sometime in 2012.

**Recommendation:** We recommend that the entity continue with the current projects under way at Woldenberg Village and the planned projects for CCPI. Once completed, management should assess control processes on an ongoing basis to ensure they are operating as designed. As a part of this assessment, management should monitor for changes in operations and/or personnel to ensure that the effectiveness of the control policies are not compromised by these changes.

**Management's Response:** In 2010, Management began a project to assess internal controls, including segregation of duties, at Woldenberg Village. The project is on-going, and controls will continue to be monitored on an on-going basis for effectiveness. A similar project is scheduled for CCPI beginning sometime in 2012.